



ESG INVESTING

Is Capital Structure Irrelevant with ESG Investors?

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This paper examines whether capital structure is irrelevant for enterprise value and investment when investors care about environmental, social, and governance issues, which we denote “ESG-Modigliani-Miller” (ESG-MM). Theoretically, we show that ESG-MM holds if ESG is additive and markets are perfect. ESG-MM means that issuing low-yielding green bonds does not lower the overall cost of capital because it makes the issuer's other securities browner. Hence, a firm's incentive to make a green investment does not depend on its financing choice. Empirically, we provide evidence of failure of ESG-MM, implying that firms and governments can exploit non-additive ESG or segmented markets.

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