

# Analysis of the Impact of Environmental, Social, Governance Rating Disagreements on Corporate Green Loans

Qidong Zhang\*

College of Business, University College Dublin, Singapore

\*Corresponding author: qidongzhang59@gmail.com

**Abstract.** At present, the divergence of Environmental, Social, Governance (ESG) ratings stems from the differences in methodology and data sources of various institutions, which is becoming a research hotspot in the intersection of corporate finance and sustainable finance. The causes and economic consequences of ESG rating divergence are increasing concern at home and abroad, and significant rating differences cause significant obstacles to the process of capital allocation. This paper mainly studies how ESG rating disagreement affects the risk judgment and loan decision of enterprises applying for green credit. Due to the divergent ratings of different financial institutions on the ESG performance of the same enterprise, banks devote more resources to verification, raising the audit cost. At the same time, the rating divergence exposes the credibility problem of ESG information of enterprises, and the poor information and uncertainty make the risk control of green credit more difficult. The degree of ESG rating disagreement is significantly negatively correlated with the scale of green credit obtained by enterprises and the interest rate discount margin. In view of the above core problems, this paper proposes that unifying ESG rating standards and improving the transparency of information disclosure of enterprises can promote the efficiency of corporate green credit and reduce risks.

**Keywords:** ESG; rating divergence; green credit.

## 1. Introduction

Environmental, Social, Governance (ESG) is a comprehensive set of standards for evaluating a company's non-financial performance, used to measure its sustainability and long-term value. It covers three major dimensions: environment (E), society (S), and governance (G). This system is mainly rooted in the financial perspective of sustainable development and has now become a core tool for investment decision-making, risk management, and regulatory compliance, influencing daily credit approvals, investment portfolios, and other financial activities. ESG ratings are systematic assessment methods by professional institutions of a company's environmental, social, and governance performance. Rating agencies integrate relevant data and apply specific models, ultimately presenting the results in the form of scores or grades. This rating has become an important tool for managers and investors to identify significant non-financial risks and supplement analysis, and is widely used in investment decisions to achieve sustainable development in capital allocation. With the continuous deepening of the dual carbon strategy, ESG ratings have become a core reference indicator for commercial banks when making green credit allocations. However, there are significant differences in ESG rating analyses of the same enterprise by domestic and foreign rating agencies, and such discrepancies may distort banks' measurement and assessment of environmental and social risks [1]. Clarifying the impact of ESG rating differences on green credit has important practical significance for promoting the development of the green finance industry.

The divergence in ESG ratings among different institutions has drawn extensive attention from the academic community. Currently, related academic research mainly focuses on the following directions. First, by evaluating the indicator system and the weight distribution of different aspects, the causes of ESG rating divergence are explored [2]. Second, the impact of ESG ratings on the capital market, especially on the financing costs of enterprises, is analyzed [3]. Third, the influence of the quality of ESG information disclosure on the credit decisions of financial institutions is studied [4]. This paper, starting from the perspective of rating divergence, deeply analyzes the specific impact of

ESG rating differences on enterprises' access to green credit, providing theoretical support for promoting the construction of green finance in China.

This paper mainly focuses on the causes and current situation of ESG rating disagreement, and reveals that the evaluation disagreement mainly affects banks' credit decisions in three ways. Firstly, divergence increases information uncertainty and audit cost; secondly, it weakens the effectiveness of rating; thirdly, it affects corporate financing conditions. The root cause of ESG divergence lies in the asymmetry of information disclosure quality and rating methods.

**Marginal contribution:** This study reveals how ESG rating divergence exacerbates the risk of information asymmetry in banks' green credit decisions, provides empirical evidence for financial institutions to optimize credit risk assessment models, avoid distorting banks' capital allocation decisions, and deepens the theoretical exploration of ESG differentiated ratings on green credit investment efficiency.

## **2. The Current Situation and Causes of Disagreements in ESG Ratings**

### **2.1. The Definition of the ESG Assessment Mechanism**

With the development of global green finance, ESG rating has become the global mainstream investment system. The evaluation system is the core standard to measure the level of sustainable development of enterprises, mainly focusing on environmental, social, governance and other non-financial indicators. ESG rating methods mainly include: key performance indicator (KPI) weight scoring method, which calculates the comprehensive score by giving differentiation weight; The negative screening method conducts exclusion assessment based on whether there are controversial events in the enterprise; Industry substantive issues evaluation method, according to the characteristics of different industries to select important ESG factors special evaluation; Integrated rating method, which combines ESG with traditional financial analysis. At present, a weighted scoring mechanism is mainly applied in this field, and rating agencies set weight assessments for enterprises in different industries at the ESG level. For example, MSCI focuses 35% on the carbon emissions of energy enterprises. Most of the data referred to comes from the independent disclosure of enterprises, satellite data supplement, independent collection and management. However, the difference in index weights assigned by different rating agencies leads to significant differences in assessment results, which directly affects the judgment efficiency of banks on the real risk of enterprises in green credit.

### **2.2. The Manifestations and Causes of the Divergence**

ESG rating divergence is mainly reflected in the widely different rating results of different agencies for the same enterprise. The causes can be analyzed in multiple dimensions. From the theoretical level, there are significant differences in the weight distribution and data sources of the three dimensions of environment, society, and governance among different rating agencies [5]. Affected by national conditions and regional differences, it is difficult to unify the rating standards. At the same time, the current situation of information asymmetry shows that there are problems of incomplete data and excessive beautification in the disclosure of ESG information of enterprises, which makes the rating agencies have to collect data independently rather than disclose information of enterprises, thus further expanding the rating difference.

From the perspective of the rating system, due to the differences in rating frameworks of various companies, different index weights and inconsistent underlying data sources, the estimated value of rating results has a high degree of heterogeneity. Morningstar pays more attention to environmental risk, governance structure and other issues in rating, China Securities focuses on local reality and tends to the contribution of enterprises to society as a whole, Morgan Stanley Capital International (MSCI) focuses on environmental issues and industry leadership, and Refinitiv tends to measure data disclosure and information transparency. The reason for the rating divergence mainly lies in the different core criteria used by different rating agencies to evaluate the ESG risks and opportunities

faced by enterprises. At the value level, some institutions focus on corporate contributions and social achievements, while others focus on sustainable development risk assessment [6]. The results differ significantly due to the different evaluation dimensions and problem orientation. Secondly, the international mainly adopts a combination of qualitative and quantitative, emphasizing the transparency and comparability of enterprise data, and the rating results of major institutions are more relevant. In China, the qualitative method is mainly adopted, relying on the disclosure of enterprises and the independent collection of data by rating agencies. Different ways of processing non-financial information and different reference data will also make the gap between results wider.

### **3. The Impact of ESG Disagreements on Bank Green Loans**

#### **3.1. The ESG Differences will Increase the Uncertainty of Information**

ESG rating divergence has led to a sudden rise in the instability of rating results, which has a significant impact on the financing environment of enterprises. According to the existing research, a high-quality rating result will enhance the attention of enterprises in the credit market, promote the information disclosure of enterprises in environmental and social levels, improve information transparency, and promote green credit [7]. Rating divergence will reduce the quality and credibility of ESG information disclosure and increase the financing difficulty of enterprises [8]. When conducting green credit evaluation, banks usually believe that enterprises may have greenwashing behaviors, and cannot determine whether the divergent ESG ratings are due to the poor ESG assessment of the daily operation of enterprises, insufficient motivation for sustainable development, or inconsistent rating methods and standards of different institutions. It is difficult for investors to judge the accuracy and authenticity of information, which intensifies the matching of sustainable investment risks and credit caused by information asymmetry, restricts the development of corporate financing and reduces capital liquidity [9].

#### **3.2. Increased ESG Rating Discrepancies Lead to Higher Credit Review Costs.**

First, different ESG rating agencies adopt different theoretical frameworks, leading to significant differences in the rating of the same enterprise in different agencies. This differentiation exacerbates information asymmetry and leads to higher due diligence and monitoring costs for bank credit. MSCI and Standard & Poor's (S&P), for example, offer wildly different assessments of Tesla. Therefore, when issuing green credit, banks cannot compare and reference evaluation results, which greatly increases the cost of information review. Second, rating agencies use different channels to collect corporate data, such as independent disclosure of enterprises and integration with third-party agencies. Previous studies have pointed out that less than half of the data is consistent among different rating agencies, and the fragmented collection method increases the chance of results. Banks need to cultivate more ESG analysis teams, measure key sensitive indicators, request more relevant data from enterprises for cross-evaluation, avoid disagreements that weaken the forecast level of future earnings of enterprises, and ensure credit feasibility [10].

#### **3.3. The Divergence in ESG Ratings Weakens the Effectiveness and Expansion of Green Credit Risks.**

ESG rating differences may weaken the financing efficacy of green credit and expand the financial risk of enterprises. First of all, the inconsistent standards of rating agencies make it difficult for banks to accurately evaluate the sustainable development level of enterprises, and some high-polluting enterprises may obtain falsely high ratings through selective disclosure of greenwashing, resulting in wrong credit decisions and reduced capital allocation efficiency [11,12]. Secondly, the heterogeneity of rating results is not conducive to corporate reputation, improves corporate credit risk in the capital market, reduces information transparency, and destroys investors' interest and subjective initiative. When the degree of divergence is large, the market's ESG information positivity of the enterprise decreases by 40%, which further affects the enterprise's reputation and external environmental

benefits [10]. A low ESG score will raise the financing cost of enterprises, especially for traditional manufacturing enterprises, and debt pressure may crowd out green technology investment, thus forming a cash flow crisis. Therefore, if ESG rating lacks scientific and dynamic adjustment, it will not only fail to effectively promote green transformation, but may also become a risk to the sustainable development of enterprises.

### **3.4. Increased ESG Rating Discrepancies Increase the Access and Regulatory Risks of Bank Credit.**

ESG rating divergence significantly increases access and regulatory compliance risks in the bank credit business. This risk stems from information divergence caused by inconsistent rating methods, which distorts banks' judgment on customers' real ESG risk [1]. In the pre-loan access phase, a company's ESG ratings diverge wildly, blurring the data criteria banks rely on to screen customers. This uncertainty forces banks into a contradiction between risk aversion and rational lending, fearing that it will violate the principle of prudence and sow compliance risks. In terms of continuous post-loan compliance supervision, banks need to comprehensively monitor the use of green credit funds and environmental benefits. However, the rating divergence leaves banks with a lack of stable, reliable benchmarks to track changes in corporate ESG performance. Banks made decisions based on unreliable rating changes without a sufficient basis, leading to credit disputes and even regulatory accountability. In short, ESG rating divergence increases bank credit access and regulatory compliance risks.

## **4. Conclusion**

ESG rating disagreement significantly affects the decision-making efficiency and resource allocation of green credit. The difference in results under different rating systems leads to the risk of information asymmetry, which may lead to problems such as "greenwashing" loans or insufficient financing of high-quality green projects.

The central bank and rating agencies promoted the construction of ESG rating standards and realized data visualization. Strengthen the application of technology, replace the existing manual data collection with big data statistics, and speed up the speed and accuracy of information processing. Carry out a diversified rating model to reasonably evaluate the mechanism of applying different weights to enterprises in different fields.

Based on the above research, this paper suggests that International Sustainability Standards Board (ISSB) actively promotes the gradual implementation of global ESG evaluation standards, builds a mandatory and binding ESG information disclosure quality standard system, improves the evaluation weight of key indicators and the credibility of third-party data, avoids rating divergence and information heterogeneity, and establishes rating credibility. At the same time, the test samples should be expanded to include small and medium-sized enterprises in the scope of assessment. The assessment has a broader data basis to ensure the rationality of the theoretical mechanism.

## **References**

- [1] Berg F, Kölbel J F, Rigobon R. Aggregate confusion: the divergence of esg ratings. *Review Of Finance*, 2022, 26(6): 1315-1344.
- [2] Billio M, Costola M, Hristova I, Latino C, Pelizzon L. Inside the esg ratings: (dis)agreement and performance. *Corporate Social Responsibility And Environmental Management*, 2021, 28(5): 1426-1445.
- [3] Gibson B R, Krueger P, Schmidt P S. ESG rating disagreement and stock returns. *Financial Analysts Journal*, 2021, 77(4): 104-127.
- [4] You X, Chen C, Peng K, Li Y. ESG disclosure quality and cost of debt. *Emerging Markets Review*, 2025, 64(2): 101-121.

- [5] Sun J X, Tan W J, Guo F. Re-evaluation of mainstream ESG ratings in China. *Journal Of Finance And Economics*, 2024, 50(05): 4-18.
- [6] Xiao H J, Ding F R. Research review and prospect of ESG rating divergence. *Journal Of Dongbei University Of Finance And Economics*, 2024, (06): 40-57.
- [7] Wang B, Yang M J. Research on the influence mechanism of ESG performance on enterprise value: empirical evidence from China's A-share listed companies. *Soft Science*, 2022, 36(06): 78-84.
- [8] Caglio A, Melloni G, Perego P. Informational content and assurance of textual disclosures: evidence on integrated reporting. *European Accounting Review*, 2020, 29(1): 55-83.
- [9] Gangi F, Varrone N, Daniele L M, Coscia M. Mainstreaming socially responsible investment: do environmental, social and governance ratings of investment funds converge? *Journal Of Cleaner Production*, 2022, 35(3): 131-168.
- [10] Serafeim G, Yoon A. Stock price reactions to ESG news: the role of ESG ratings and disagreement. *Review Of Accounting Studies*, 2023, 28(3): 1500-1530.
- [11] Christensen D M, Serafeim G, Sikochi A. Why is corporate virtue in the eye of the beholder? The case of ESG ratings. *The Accounting Review*, 2022, 97(1): 147-175.
- [12] Tsang A, Frost T, Cao H. Environmental, social, and governance (ESG) disclosure: a literature review. *The British Accounting Review*, 2023, 55(1): 101-114.