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Review Article

Does Environmental, Social, and Governance (ESG) Engagement Constrain Corporate Tax Avoidance? Evidence From Developing Economies: A Narrative Review

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Abstract

Environmental, social, and governance (ESG) engagement is often framed as a market-based constraint on aggressive corporate tax behavior, but developing-economy evidence is geographically concentrated, proxy-sensitive, and mostly associational. The review draws on 18 peer-reviewed, firm-level studies published from 2015 to early 2026, each involving firms from at least one World Bank low- or middle-income economy. Governance-related variables, especially board independence, audit oversight, and institutional ownership, were the most frequently reported ESG-related factors associated with lower tax avoidance. However, only a small minority of studies used quasi-experimental, instrumental-variable, or dynamic-panel approaches capable of addressing endogeneity. Environmental-pillar evidence was sparse, and corporate social responsibility expenditure could not be treated as equivalent to standardized social-pillar ESG scores. Composite ESG findings were inconsistent, especially among Chinese A-share studies using similar rating sources. Current evidence supports cautious, targeted governance-focused pilots paired with stronger enforcement infrastructure, not broad reliance on composite ESG scores as tax-compliance tools.

Categories: Auditing and taxation, Corporate Governance & Business Ethics, Sustainable Economic Development

Keywords: esg, corporate tax avoidance, developing economies, governance, stakeholder theory, institutional quality, narrative review

JEL Classifications: H26, M14, G34

Introduction And Background

Corporate income tax does heavier fiscal work in low- and middle-income economies than in members of the Organisation for Economic Co-operation and Development (OECD). In 2022, corporate tax accounted for 21.2% of total tax revenue across 35 African jurisdictions and 21.3% across 35 Asia-Pacific jurisdictions, against an OECD average of 12 percent (OECD, 2025). Where the personal income tax base is narrow and tax administration is thin, corporate revenue does the heaviest fiscal lifting. Revenue losses from corporate tax avoidance fall disproportionately on lower-income economies relative to the size of their tax bases (Cobham and Janský, 2018). Aggressive avoidance by listed firms cuts directly into revenue that funds public services. The term tax avoidance is used throughout to mean the legal minimization of tax liability through provisions in the code, distinct from evasion (Hanlon and Heitzman, 2010).

Environmental, social, and governance (ESG) engagement has been proposed as a market-based check on aggressive corporate tax behavior. Stakeholder theory predicts that firms with public sustainability commitments face reputational and relational costs for avoidance, because investors, regulators, and civil society treat tax compliance as part of the social contract that ESG frameworks are supposed to reflect (Freeman, 1984). The empirical record, however, is geographically narrow. Lanis and Richardson (Lanis and Richardson, 2012) and Hoi et al. (Hoi et al., 2013) document negative associations between corporate social responsibility (CSR) performance and tax avoidance in Australian and US samples. Davis et al. (Davis et al., 2016) report the opposite pattern: CSR and tax payments behave as substitutes, with firms that spend more on social programs paying less in taxes. The most recent meta-regression (Mitroulia et al., 2025) pools 33 primary studies and finds a small-to-moderate negative association on average, with substantial heterogeneity by ESG indicator and country sample. The conditions that help produce these results in OECD economies (active capital markets, professionalized tax authorities, mandatory sustainability disclosure, dispersed ownership) do not consistently describe developing-economy settings.

ESG measurement in low- and middle-income markets is also harder to interpret than in OECD settings. The included developing-economy studies rely mainly on two rating families: Refinitiv, now part of the London Stock Exchange Group (LSEG), which covers larger internationally visible firms across multiple regions, and Sino-Securities/Huazheng ratings, which cover Chinese A-share companies. Both concentrate on listed firms meeting minimum capitalization and disclosure thresholds. Smaller firms, state-owned enterprises outside listed subsidiaries, and informal-sector operators are unrated. ESG disclosure remains voluntary or in early-stage adoption across many low- and middle-income jurisdictions, and mandatory regimes comparable to the European Union's Corporate Sustainability Reporting Directive have not yet been enacted. Rating providers can also disagree in methodology, weighting, source data, and coverage. ESG scores in these markets, therefore, capture a narrower and more selectively defined slice of the corporate population than they do where disclosure infrastructure is mature.

The developing-economy evidence on ESG and tax behavior is thin and unevenly distributed. China and Indonesia together account for most of it. Sub-Saharan Africa, South Asia, and most of Latin America are barely represented. Most studies test ESG as a composite score that averages across the three pillars, obscuring which pillar drives any observed effect. This is a substantive problem rather than a technical one. Governance, environmental engagement, and social commitment operate through different mechanisms and cannot be assumed to behave the same way in relation to tax behavior. A coefficient on "ESG" does not tell a regulator whether to require board independence thresholds, carbon disclosure, or community investment programs. National institutional quality has been tested as a moderator only rarely and never systematically, even though variation in the rule of law, tax administration capacity, capital market depth, rating-provider coverage, and tax-proxy measurement may all shape whether OECD patterns transfer.

This review synthesizes developing-economy evidence on ESG and corporate tax avoidance by construct rather than as a single composite. Meta-analytic pooling was not viable because the studies used different ESG ratings, tax avoidance measures, estimation strategies, and reporting formats, leaving effect sizes non-comparable on a common scale. A thematic reading is what the evidence supports.

Review

Methods

Quality Assessment

This narrative review examined empirical firm-level evidence linking ESG engagement to corporate tax avoidance in low- and middle-income economies. No prospective protocol was registered, and no meta-analytic pooling was undertaken because the eligible studies used different ESG measures, tax avoidance proxies, model specifications, and reporting formats. The review followed a structured narrative process: database searching, eligibility screening, data extraction, study-level appraisal, and thematic synthesis.

Search Strategy

Scopus, Web of Science, and Google Scholar were searched between January and March 2026. Search terms combined three concept domains. ESG-related terms included "ESG," "environmental social governance," "CSR," "corporate social responsibility," "sustainability performance," and "corporate governance." Tax-related terms included "tax avoidance," "tax aggressiveness," "tax planning," "effective tax rate," and "book-tax differences." Economy-related terms included "emerging markets," "developing countries," "low-income," "middle-income," and country names used when broad searches produced sparse results, including China, Indonesia, Pakistan, Nigeria, Vietnam, Morocco, Bangladesh, Egypt, and Mexico. Searches combined at least one term from each domain with Boolean operator AND logic.

The date window covered 2015 through early 2026. This window was selected because ESG rating and disclosure infrastructure in many developing economies expanded after the adoption of the Sustainable Development Goals in 2015. Earlier sources were retained only for foundational theory or measurement context, not as part of the empirical developing-economy evidence base.

Inclusion and Exclusion Criteria

Studies were eligible for formal synthesis if they met four criteria: peer-reviewed publication in English; empirical firm-level design; at least one ESG-related, CSR-related, sustainability, or governance variable tested as an explanatory variable or moderator; and at least one tax avoidance, tax aggressiveness, tax planning, effective tax rate (ETR), or book-tax difference (BTD) outcome. Samples had to include firms from at least one World Bank-classified low- or middle-income economy.

Studies were excluded if they used exclusively high-income or OECD samples, did not include a tax avoidance outcome; did not test an ESG-related explanatory variable, lacked firm-level empirical data, appeared as grey literature, conference proceedings, book chapters, editorials, conceptual essays, bibliometric studies, or working papers; or were not available in English. Studies that used CSR expenditure were retained but classified separately from standardized social-pillar ESG evidence because CSR spending does not measure the same construct as rating-agency social-pillar scores.

Screening Process

Database and citation searching identified candidate studies across Scopus, Web of Science, and Google Scholar using the search strategy above. Titles and abstracts were screened against the inclusion and exclusion criteria, and full texts were retrieved for studies that appeared potentially eligible. As a narrative review rather than a systematic review, exact record counts were not tracked at each screening stage; SANRA, the framework guiding this review's methodology (Baethge et al., 2019), does not require PRISMA-style staged reporting. Fifteen studies met the inclusion criteria through database and citation searching, and reference-list snowballing of included studies identified three additional qualifying articles. The final synthesis comprised 18 peer-reviewed empirical studies, corresponding to the 18 entries in Table *1*.

Data Extraction

For each included study, extraction captured the country or region of the sample, study period, firm or firm-year count, research design, estimation method, ESG or ESG-related measure, rating provider, where applicable, tax avoidance proxy, primary direction of association, statistical significance, reported moderators, and author-reported limitations. Extraction also captured tax-proxy type, endogeneity approach, listed-firm restriction, and temporal coverage. These fields enabled the synthesis to distinguish ETR-based findings from BTD-based or aggressive tax planning (ATP)-based findings and to avoid treating all tax-avoidance proxies as interchangeable.

Study-Level Evidence Appraisal

Study quality was appraised with an adapted evidence-strength framework for observational accounting and tax research. Six domains were assessed: research design, endogeneity control, ESG-measure validity, tax-proxy validity, sample breadth, and reporting transparency. Quasi-natural experiments, instrumental-variable models, and dynamic-panel approaches were classified as stronger inferential designs. Fixed-effects, generalized least squares (GLS), and ordinary least squares (OLS) models without endogeneity controls were classified as associational. Studies relying on a single tax proxy, narrow rating-provider coverage, small listed-firm samples, or short observation windows were marked as having a higher risk of measurement error, selection bias, or reverse causality.

The appraisal did not convert studies into a pooled score because a single numeric score would obscure different sources of bias. Instead, each study was classified by inferential strength and main limitation domain. This classification is reported in the evidence table and used throughout the Results and Discussion to separate stronger designs from descriptive associations.

Evidence Organization

Evidence was organized by ESG construct and measurement type: governance-related variables, environmental-pillar evidence, CSR or social-related evidence, and composite ESG scores. Cross-cutting synthesis then examined tax-proxy heterogeneity, geographic concentration, rating-provider variation, temporal coverage, and institutional moderators. Findings are described as associations unless the original study design supported stronger causal inference.

Results

Governance Pillar and Tax Avoidance

Governance-related variables account for the largest share of empirical attention linking ESG engagement to corporate tax behavior in developing-economy firm samples. Board composition, audit oversight, ownership structure, and internal control are the primary attributes under study. Eleven studies spanning nine countries between 2021 and 2026 provide governance-related evidence, although only a minority use designs capable of reducing endogeneity concerns. The effective tax rate remains the dominant avoidance proxy, with fewer studies using BTDs or aggressive-tax-planning indices (Table *1*). Figure *1* provides an analytical organizing framework for ESG-related constructs, possible interpretive channels, contextual factors, and tax avoidance outcomes; it does not depict mediation pathways tested directly in the included studies.

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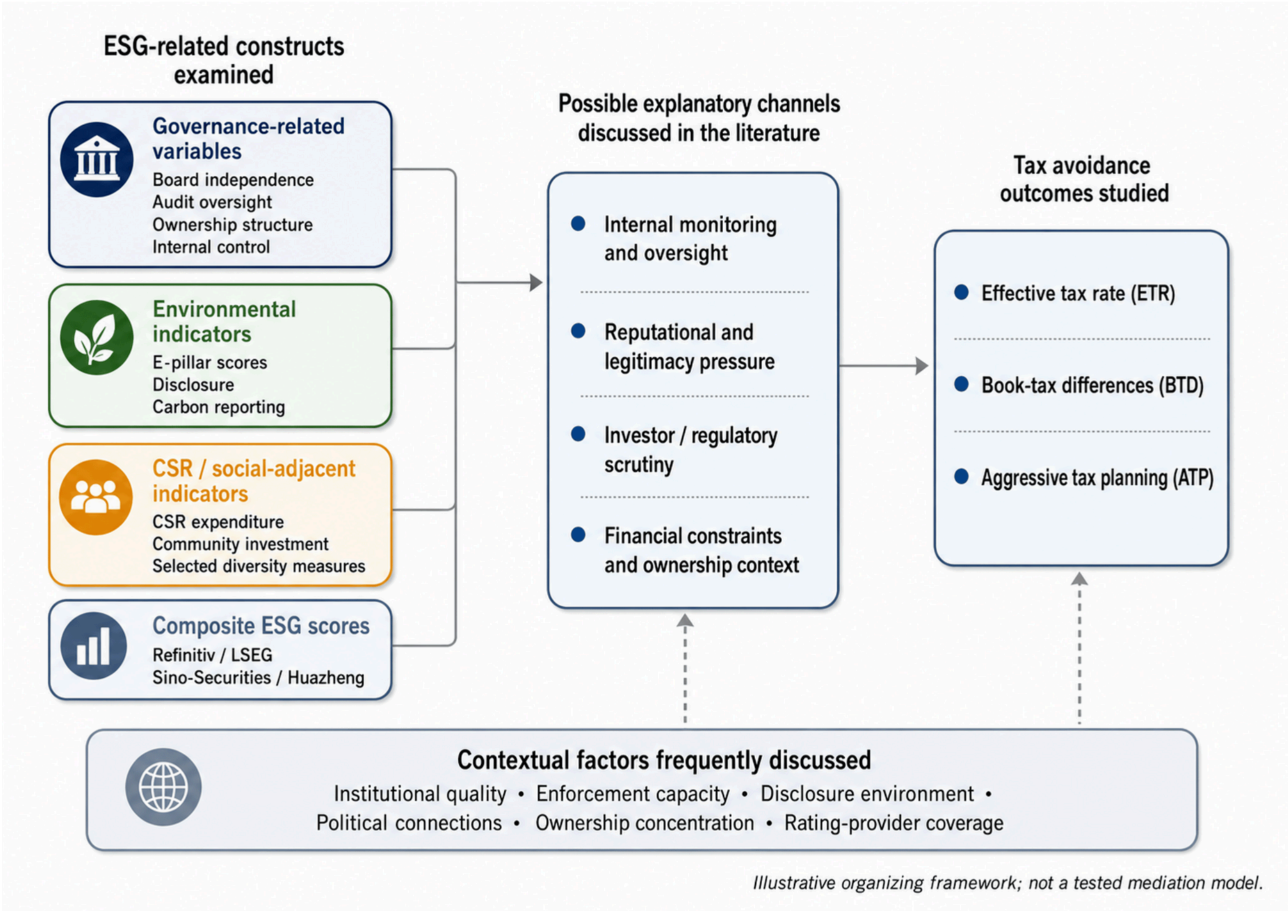

FIGURE 1: Analytical organizing framework for ESG-related constructs and tax avoidance evidence in developing economies

Source: Authors' own work. This figure was produced programmatically as a vector diagram using the Python pycairo graphics library; no generative artificial-intelligence image tools were used. ESG = Environmental, social, and governance; CSR = corporate social responsibility; LSEG = London Stock Exchange Group

Study	Country/sample	Design, sample, and period	ESG-related measure	TA proxy	Construct	Inferential strength/main limitation
(Alomair and Metwally, 2025)	Egypt	Panel, 80 firms, 400 observations, S&P/EGX ESG, 2018–2022	ESG disclosure, composite and pillar-level	ETR	Composite/environmental	Associational; ESG modeled as moderator rather than direct predictor
(Angelina and Carolina, 2025)	Indonesia	Panel, 25 IDX firms, 2021–2024, simple regression	Composite ESG, Refinitiv	ETR	Composite	Low inferential strength; very small sample and simple regression
(Dalimunthe et al., 2024)	Indonesia	Panel, IDX non-financial firms, 2019–2023, panel regression	Composite ESG, Refinitiv/LSEG	BTD	Composite	Associational; single-country listed-firm sample
(Dang and Nguyen, 2022)	Vietnam	Panel, HOSE and HNX, 2010–2019, FEM and SGMM	Audit committee size, female membership, independence, financial expertise	ETR, BTD	Governance	Moderate inferential strength; dynamic-panel approach, listed-firm scope
(Hasan et al., 2024)	Pakistan	Panel, 138 firms, 1,380 observations, 2009–2018, GLS	Board independence, ownership concentration, managerial ownership, audit committee gender diversity	ETR	Governance	Associational; single-country sample ending in 2018
(Hidayat and Zuhroh, 2023)	Indonesia	Panel, 114 IDX firms, 2013–2020, FEM	E, S, G disaggregated; ownership structure	ETR	E/S/G	Associational; rating-provider coverage concentrated among larger firms

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(Hossain et al., 2025)	Bangladesh	Panel, DSE-listed firms	Board gender diversity and firm characteristics	ETR	Governance	Associational; listed-firm sample and moderator-focused design
(Jiang et al., 2024)	China	Panel, 27,114 A-share observations, 2009–2021	Composite ESG, Sino-Securities/Huazheng; pillar disaggregation available	ETR, BTD	Composite/E/G	Associational; domestic ESG provider and country-specific institutional setting
(Kerr et al., 2024)	Mexico	Panel, 928 observations, quasi-natural experiment	Board independence and audit committees, hand-collected index	ETR	Governance	Stronger inferential design; Mexico-specific governance reform, effects concentrated in subgroups
(Khan et al., 2022)	Nigeria and Pakistan	Panel, listed firms, 2011–2020	Board characteristics; CSR investment	ETR	Governance/CSR	Associational; CSR expenditure is not equivalent to standardized social-pillar ESG
(Liu et al., 2025)	China	Panel, A-share firms, 2009–2019	Composite ESG, Sino-Securities Index	ETR, BTD	Composite	Associational; positive direction conflicts with Jiang et al.
(Mahouat et al., 2026)	Morocco	Panel, Casablanca SE, 2020–2024, OLS + FE	CEO-chair separation, board size, audit quality as moderator	Tax aggressiveness	Governance	Associational; short window and small-exchange setting
(Mansour and Alomair, 2026)	14 developing economies	Panel, 2,464 firms, 17,424 observations, 2015–2023; FE, SGMM, IV-2SLS	Composite ESG, Refinitiv	ETR, BTD	Composite	Stronger than most included studies; pooled cross-country design may conceal country heterogeneity

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(Najihah et al., 2024)	Indonesia	OLS, 176 firm-years (88 firms, 2021-2022)	Managerial ownership, institutional ownership, foreign ownership	ETR (Cash ETR)	Governance	OLS without endogeneity controls; 2-year panel; single-country sample
(Pham et al., 2024)	Vietnam	Panel, listed firms	Board characteristics and ownership structure	ETR	Governance	Associational; single-country sample and partial overlap with Vietnam governance literature
(Salehi et al., 2024)	Iran	Panel, 192 firms, 2011–2021	Board independence, CEO duality, auditor type, gender diversity, institutional ownership, audit committee specialization	ETR	Governance	Associational; Tehran Stock Exchange only
(Syahputri, 2025)	ASEAN 5	Panel, 276 firms, 1,032 observations, 2019–2023	Composite ESG, Refinitiv	ETR	Composite	Associational; includes Singapore and relies on limited Refinitiv coverage
(Zhang and Yuan, 2025)	China	Panel, A-share firms	Composite ESG, Huazheng/Sino-Securities; internal control moderator	ATP	Composite	Associational; direction depends on internal-control moderator and conflicts with other Chinese evidence

TABLE 1: Empirical studies of ESG and tax avoidance in developing economies (2015 through early 2026)

Source: Compiled by the authors from the 18 included studies. TA = tax avoidance; ETR = effective tax rate; BTD = book-tax differences; ATP = aggressive tax planning; CSR = corporate social responsibility; FE = fixed effects; SGMM = system GMM; IV = instrumental variable; FEM = fixed-effects model; GLS = generalized least squares. Construct labels to identify the ESG-related dimension tested in each study. CSR is reported separately because CSR expenditure does not measure the same construct as standardized social-pillar ESG scores

Board independence was the most frequently studied governance attribute, but the evidentiary strength varied by design. Hasan et al. (Hasan et al., 2024) reported a negative association between independent director representation and tax avoidance among 138 Pakistani firms (1,380 annual observations, 2009-2018) using generalized least squares regression. Salehi et al. (Salehi et al., 2024) reported the same directional pattern among 192 Iranian firms on the Tehran Stock Exchange (2011-2021), where board independence, audit committee specialization, gender diversity, and institutional ownership were each negatively associated with avoidance, while chief executive officer (CEO) duality was positively associated with avoidance. Both studies support an associational governance signal rather than a causal estimate. Kerr et al. (Kerr et al., 2024) provided stronger design leverage by using a Mexican governance reform as a quasi-natural experiment across 928 company-year records. Board independence and audit committee presence were associated with reduced avoidance after the reform, although the effect was concentrated in family-owned and non-cross-listed firms. On the Casablanca Stock Exchange (2020-2024), Mahouat et al. (Mahouat et al., 2026) found that separation of the CEO and board chair roles was associated with lower tax aggressiveness, with audit quality strengthening the board-size effect in OLS models with firm and year fixed effects.

Audit committee characteristics received dedicated treatment in two Vietnamese studies. Dang and Nguyen (Dang and Nguyen, 2022) applied fixed-effects and system GMM estimation to non-financial firms on the Ho Chi Minh City and Hanoi exchanges (2010-2019). Larger audit committees had a positive association with avoidance, while the presence of female members and financial or accounting specialists had negative associations. Pham et al. (Pham et al., 2024) reported mixed and partially contradictory results from 282 firm-year observations of Vietnamese listed firms (2017-2022) using OLS regression. Board size and audit quality were positively associated with tax avoidance in this sample, while CEO duality showed a negative association, opposite to the directions to those reported by Mahouat et al. (Mahouat et al., 2026) for board size and by Salehi et al. (Salehi et al., 2024) for CEO duality, respectively. Ownership concentration, institutional ownership, and executive compensation showed no significant relationship with avoidance.

Ownership structure effects varied by ownership type and setting. Concentrated ownership was negatively associated with avoidance in the Pakistani sample (Hasan et al., 2024). Institutional ownership had a negative association in Indonesian (Najihah et al., 2024) and Iranian (Salehi et al., 2024) samples, while managerial ownership showed a positive association in Pakistan (Hasan et al., 2024). Female board representation appeared in studies from Pakistan (Hasan et al., 2024), Iran (Salehi et al., 2024), and Morocco (Mahouat et al., 2026), with reported directions generally pointing toward lower avoidance, although statistical strength ranged from marginal to strong. Hossain et al. (Hossain et al., 2025) in Bangladesh reported a more qualified pattern: female directors had no significant direct effect on tax avoidance but negatively moderated the relationship between firm profitability and avoidance and between firm size and avoidance. These patterns support heterogeneity by ownership structure, firm characteristics, and country context rather than a uniform governance effect.

A comparative study of Nigerian and Pakistani publicly traded firms (2011-2020) compared similar governance and CSR-related variables across both country subsamples (Khan et al., 2022). Directions and statistical strength differed between the two settings: CSR investment was positively and statistically associated with avoidance in Nigeria but not significantly associated with avoidance in Pakistan. Identical or closely related firm-level variables therefore produced different estimates across national settings, reinforcing the need to interpret pooled developing-economy claims cautiously.

One nonlinear pattern appeared in the Pakistani data. Hasan et al. (Hasan et al., 2024) found that the negative governance-avoidance association held at lower levels of tax aggressiveness but reversed at higher levels. Stronger governance coincided with more aggressive tax behavior among firms already at the upper end of the avoidance distribution. The relationship was not monotonic.

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Design quality separated the governance evidence into two tiers. The Mexican quasi-natural experiment (Kerr et al., 2024) and the Vietnamese system GMM approach (Dang and Nguyen, 2022) addressed endogeneity most directly. The remaining governance studies used OLS, GLS, or fixed-effects panel models without instrumental variables, leaving reverse causality and omitted managerial quality unresolved. Most single-country governance samples contained between 138 and 192 firms or roughly 400 to 1,380 firm-year observations. All drew from exchange-listed companies, so the evidence describes visible listed firms rather than the broader company population in each economy.

Environmental Pillar and Tax Avoidance

Environmental disclosure, carbon reporting, and environmental performance ratings received far less direct attention than governance as predictors of tax behavior. Two included studies provided environmental-related evidence, but only one clearly separated the E-pillar from broader ESG or disclosure effects.

Jiang et al. (Jiang et al., 2024) analyzed 27,114 annual observations from Chinese A-share non-financial firms (2009-2021) using Huazheng ESG ratings. The composite ESG effect was negative and statistically significant at the 5% level. Supplementary pillar-level analysis showed governance carrying most of the negative association; the environmental component was weaker and less stable. The overall negative direction held at the composite level, but the environmental channel contributed a smaller share of the estimated effect.

Among 80 Egyptian firms (400 observations, 2018-2022) on the S&P/Egyptian Exchange (EGX) ESG index, Alomair and Metwally (Alomair and Metwally, 2025) used ESG disclosure as a moderator of the tax avoidance-firm value relationship. Tax avoidance negatively affected firm value in OLS and fixed-effects models; ESG disclosure eliminated this negative effect, producing a net positive association. The environmental pillar's independent moderating contribution was not isolated.

Additional work on environmental disclosure and carbon reporting in developing economies, particularly from Indonesia's Corporate Performance Rating Program (PROPER), was identified during the search, but none addressed environmental engagement as a predictor of tax behavior. No study assessed environmental compliance costs, carbon tax exposure, or pollution abatement expenditures as pathways to avoidance in a developing-economy context. Geographic coverage for the E-pillar was confined to China and Egypt.

Social Pillar and Tax Avoidance

Evidence on the social pillar was the sparsest and least standardized. CSR investment, employee welfare, community programs, and diversity metrics can all sit within the social dimension, but the included developing-economy studies rarely tested standardized social-pillar ESG scores directly. CSR expenditure, therefore, provides only adjacent evidence, not a direct test of rating-agency S-pillar performance.

Khan et al. (Khan et al., 2022) compared CSR and tax avoidance across 91 Nigerian and 121 Pakistani publicly traded firms (2011-2020) using fixed-effects panel regression. In the Nigerian subsample, CSR investment was positively and statistically associated with tax avoidance at conventional significance levels: firms with higher CSR expenditure exhibited lower effective tax rates. In the Pakistani subsample, the association was positive but did not reach significance. The positive Nigerian association ran opposite to most governance-pillar studies, which found higher engagement associated with lower avoidance.

Hidayat and Zuhroh (Hidayat and Zuhroh, 2023) assessed ESG pillars separately among 114 Indonesian firms on the Indonesia Stock Exchange (IDX) (2013-2020) using fixed-effects estimation. The composite ESG variable, institutional ownership, and female directorship each returned negative effects against tax avoidance at conventional significance levels. Pillar-specific results were not available in the accessible abstract, limiting the ability to isolate the social pillar's standalone contribution. Refinitiv coverage of Indonesian firms on the exchange is concentrated among larger, internationally visible companies, constraining representativeness.

CSR and the social pillar of ESG are not equivalent constructs. CSR encompasses philanthropic and community investment that may or may not align with the social metrics used by ESG rating agencies: labor practices, human rights policies, supply chain standards, diversity and inclusion programs. Studies treating CSR expenditure as a social-pillar proxy capture a narrower construct than the S-dimension as defined by mainstream ESG frameworks. No study addressed employee welfare programs, labor standards compliance, supply chain social auditing, or workplace diversity as independent predictors of tax behavior in a developing-economy sample.

Cross-Cutting Moderators, Tax Proxies, and Measurement Heterogeneity

Eight studies assessed composite ESG scores against tax avoidance across developing-economy or mixed developing-economy samples. The findings split: six documented a negative association (higher ESG, lower avoidance) and two documented a positive association (higher ESG, higher avoidance). These composite-score results were more sensitive to tax proxy, rating provider, country setting, and model specification than the governance-specific evidence.

At 2,464 firms across 14 developing economies (Brazil, China, Colombia, Egypt, India, Indonesia, Jordan, Malaysia, Mexico, Morocco, the Philippines, South Africa, Thailand, and Turkey), the largest study yielded 17,424 panel observations over 2015-2023 (Mansour and Alomair, 2026). Fixed-effects, system GMM, and instrumental-variable estimation all placed ESG negatively against avoidance. The negative association was more evident in countries with stronger rule of law, more effective regulatory enforcement, and lower corruption. In countries with weaker institutional scores, the association attenuated or disappeared and the ESG effect lost statistical significance. This moderation pattern held across all three estimation strategies.

Three Chinese studies reached opposing conclusions from partially overlapping data. Jiang et al. (Jiang et al., 2024), with 27,114 observations (2009-2021), obtained a negative ESG result, significant at 5%. Liu et al. (Liu et al., 2025), drawing on A-share firms over 2009-2019 and the same Sino-Securities ESG rating provider, obtained a positive one: better ESG performance corresponded to more avoidance. That positive association intensified among financially constrained firms and weakened under government pressure, with ownership structure and political connections acting as moderators. Zhang and Yuan (Zhang and Yuan, 2025) also found a positive ESG-aggressive tax planning association among A-share firms, with internal control quality as a moderator. All three used Chinese data and Sino-Securities Index ratings, yet the first reached a negative conclusion and the latter two a positive one.

Syahputri (Syahputri, 2025) analyzed Refinitiv ESG scores across 276 firms (1,032 observations) in five Association of Southeast Asian Nations (ASEAN) countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) over 2019-2023. ESG was negatively associated with avoidance, while financial constraints had a positive effect in the same models. Because Singapore is classified as high-income, the ASEAN result cannot be treated as a purely low- and middle-income estimate; it is retained because most countries in the regional panel fall within the developing-economy scope, but the mixed-income composition lowers its direct policy portability.

Two Indonesian studies assessed composite ESG with concordant results. One study of 25 IDX firms (2021-2024) found ESG negatively associated with avoidance using simple regression (Angelina and Carolina, 2025). Dalimunthe et al. (Dalimunthe et al., 2024) analyzed non-financial IDX firms (2019-2023) with LSEG Refinitiv scores and BTDs as the avoidance proxy, obtaining a negative and statistically significant ESG coefficient. Both Indonesian samples are small relative to the cross-country panel below, constraining statistical power.

Tax avoidance measurements varied materially across the evidence base. ETR-based studies dominated the governance literature and most single-country designs. ETR is easy to observe, but it can change because of statutory tax incentives, loss carryforwards, deferred tax effects, or sector-specific tax rules rather than aggressive avoidance. BTD-based studies captured a different accounting-tax gap and appeared more often in composite ESG studies from China and Indonesia. ATP indices were rare and appeared mainly in the Chinese internal-control evidence. Studies using both ETR and BTD provided more useful triangulation than single-proxy designs, but even those models could not separate all avoidance behavior from legal incentives or accounting discretion. One study used the cash effective tax rate variant specifically (Najihah et al., 2024). Two studies used broader constructs instead: tax aggressiveness (Mahouat et al., 2026) and aggressive tax planning (Zhang and Yuan, 2025).

ESG measurement choices also varied. ESG scores originated mainly from two rating families in the included developing-economy studies: Sino-Securities/Huazheng ratings in Chinese studies and Refinitiv/LSEG ratings in Indonesian, ASEAN, and cross-country studies. These providers differ in methodology, component weighting, data sources, and coverage universe. Refinitiv coverage in developing economies is concentrated among larger, internationally visible firms, while domestic Chinese ratings apply to a different institutional and disclosure environment. No included study directly compared ESG providers within the same country-sample, so provider disagreement remains a measurement risk rather than an empirically resolved source of variation.

Geographic concentration further limits interpretation. China and Indonesia account for a large share of the available studies, while Sub-Saharan Africa is represented mainly by Nigeria and cross-country panels, South Asia by Pakistan and Bangladesh, and Latin America by Mexico plus pooled regional coverage. Most studies also use listed firms, leaving unlisted companies, state-owned enterprises outside listed subsidiaries, and small or medium-sized enterprises largely outside the evidence base. The phrase "developing economies" therefore describes the review scope, not a claim that the evidence represents all low- and middle-income corporate sectors.

Where pillar-disaggregated and composite results were both available, governance tended to carry the clearest negative association, while environmental and social components were less consistently isolated. Jiang et al. (Jiang et al., 2024) in China and Hidayat and Zuhroh (Hidayat and Zuhroh, 2023) in Indonesia both pointed toward governance as the more informative dimension, with environmental contributions weaker or less stable. Composite scores average across pillars, so this pillar-level variation is not visible in composite-only analyses (Table *2*).

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Dimension	Governance	Environmental	CSR/social-adjacent	Composite ESG
Predominant direction	Mostly negative association with avoidance, but not uniformly causal	Weak or unstable negative association	Mixed; CSR expenditure may coexist with higher avoidance	Mixed: 6 negative, 2 positive
Studies	11	2	2	8
Geography	Pakistan, Iran, Vietnam, Mexico, Morocco, Indonesia, Nigeria, Bangladesh, China	China and Egypt	Nigeria, Pakistan, Indonesia	14-country panel; China ×3; ASEAN; Indonesia ×3
Evidence confidence	Moderate. Most consistent construct, but stronger endogeneity handling appears in only a minority of studies	Low. Few studies and limited standalone E-pillar testing	Very low. CSR expenditure is not equivalent to standardized S-pillar ESG	Conditional. Depends on institutional quality, rating provider, country context, and tax proxy

TABLE 2: Comparative evidence map showing direction, consistency, and volume of findings by ESG-related construct across developing-economy studies

CSR = corporate social responsibility; ESG = environmental, social, and governance; ASEAN = Association of Southeast Asian Nations. Direction describes the predominant reported association between each ESG-related construct and tax avoidance. Study counts reflect the number of included developing-economy studies providing evidence attributable to that construct. Confidence reflects consistency, geographic breadth, construct validity, and methodological strength. Source: Authors' own work

Discussion

The developing-economy evidence does not support a broad claim that ESG engagement constrains corporate tax avoidance. A narrower reading fits the record better: governance-related variables are the ESG-linked constructs most often associated with lower avoidance, while environmental indicators, CSR expenditure, and composite ESG scores produce thinner or less stable evidence. Even the governance pattern is not uniformly causal. Most studies use listed-firm panels and associational models, so the findings describe recurring directional relationships rather than a settled behavioral mechanism.

Governance plausibly carries the clearest signal because the measured variables sit closer to tax decision-making than environmental or social indicators. Board independence, audit committee expertise, institutional ownership, and internal control all touch financial reporting, risk oversight, and managerial discretion. Those channels can shape tax planning more directly than carbon disclosure or community investment. The empirical evidence broadly follows that logic, but not without exceptions. Dang and Nguyen (Dang and Nguyen, 2022) reported that larger audit committees were positively associated with avoidance, while female membership and financial expertise pointed in the opposite direction. Pham et al. (Pham et al., 2024) also reported mixed Vietnamese governance results. These inconsistencies matter. They suggest that the composition and function of governance bodies may matter more than the existence of governance structures alone.

Causal interpretation remains the central weakness. Kerr et al. (Kerr et al., 2024) provide the strongest governance-specific evidence because the Mexican governance reform creates quasi-experimental leverage, but even that result was concentrated in family-owned and non-cross-listed firms. Dang and Nguyen (Dang and Nguyen, 2022) reduce dynamic endogeneity concerns through system GMM, and Mansour and Alomair (Mansour and Alomair, 2026) supplement fixed effects with instrumental-variable estimation in the cross-country composite ESG analysis. Most other studies rely on OLS, GLS, or fixed-effects models. Those designs can adjust for observed firm differences but cannot fully rule out reverse causality, omitted managerial quality, regulatory attention, or self-selection into ESG rating coverage. Firms with stronger governance may avoid taxes less because monitoring constrains aggressive planning; less tax-aggressive firms may also be more willing to disclose governance practices or enter rating-provider databases.

The contradictory Chinese evidence is therefore not a minor inconsistency. Jiang et al. (Jiang et al., 2024) found a negative association between ESG and avoidance, while Liu et al. (Liu et al., 2025) and Zhang and Yuan (Zhang and Yuan, 2025) found positive associations in A-share samples using similar domestic rating sources. A single average ESG coefficient appears poorly suited to that setting. Financial constraints, internal-control quality, ownership structure, political connections, government pressure, sample period, and tax proxy may alter the direction of the estimate. A plausible interpretation is that ESG can operate as a reputational discipline for some firms and as a legitimacy resource for others. In financially constrained or politically connected firms, ESG standing may coexist with more sophisticated tax planning; under stronger government scrutiny or higher internal-control quality, the same ESG signal may align with lower avoidance. Future Chinese studies should test those strata directly rather than treating the A-share market as one homogeneous institutional field.

Institutional quality still helps explain cross-country variation, but it should not be treated as the only contextual channel. Mansour and Alomair's 14-country panel indicates that the ESG-avoidance association weakens where the rule of law, regulatory effectiveness, and corruption control indicators are weaker (Mansour and Alomair, 2026). That pattern fits stakeholder and institutional theories: reputational commitments constrain behavior only when investors, regulators, media, and courts can impose costs for inconsistency. Yet national indices do not capture tax morale, trust in government, perceived fiscal reciprocity, or cultural expectations around corporate contribution. In settings where firms and citizens distrust public spending, reputational pressure around taxes may be weaker even when formal governance scores improve. The literature has not tested those civic and cultural moderators.

CSR evidence requires particular caution. Khan et al. (Khan et al., 2022) found that CSR investment was positively associated with tax avoidance in Nigeria and was not significantly associated with avoidance in Pakistan. That result does not establish a social-pillar ESG effect because CSR expenditure differs from standardized S-pillar rating metrics. CSR spending can reflect philanthropy, political visibility, community relations, or reputation management. Standardized social-pillar scores may include labor practices, supply-chain standards, human rights policies, and diversity metrics. Conflating the two would overstate the evidence. The Nigerian result is better read as a warning that visible social expenditure can coexist with lower tax payments rather than as proof that the social pillar increases avoidance.

Tax-proxy heterogeneity also limits synthesis. ETR appears most often, but effective tax rates respond to statutory incentives, loss carryforwards, sector-specific reliefs, and timing differences. BTD captures a different accounting-tax gap and may better reflect reporting discretion, though it also includes non-avoidance accounting effects. ATP indices are rare and depend heavily on local model construction. Because studies do not consistently report standardized effect sizes, comparable confidence intervals, or multiple avoidance measures, this review cannot rank effect magnitude across ESG constructs. Directional counting is useful for mapping the literature, but it cannot substitute for harmonized measurement.

The evidence also represents a narrow corporate universe. Listed firms dominate every included study. These firms are larger, more visible, and more likely to appear in ESG-rating databases than unlisted companies, SMEs, informal firms, and state-owned enterprises outside listed subsidiaries. That selection problem is not incidental. Many developing economies

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collect substantial revenue from firms that do not resemble listed ESG-rated corporations, and tax-administration problems often concentrate outside capital-market-visible companies. The present findings, therefore, apply most directly to listed developing-market firms with available ESG or governance data.

Relative to prior high-income-country and mixed-sample syntheses, this review contributes three clarifications. First, it separates governance variables, environmental indicators, CSR/social-adjacent evidence, and composite ESG scores rather than treating ESG as one construct. Second, it shows that developing-economy evidence depends heavily on institutional context, rating-provider coverage, and tax proxy choice. Third, it identifies the within-country contradiction in China as a substantive finding rather than a nuisance. The main implication is methodological as much as substantive: developing-economy ESG-tax research needs stronger designs, cleaner construct separation, and administrative tax data before policy claims can move beyond cautious inference.

Implications for Policy and Regulation

The evidence supports cautious policy experimentation rather than broad ESG-linked tax mandates. Governance-related variables offer the most plausible starting point because board independence, audit oversight, ownership transparency, and internal control sit closest to financial reporting and tax planning. Even so, current findings do not justify treating governance reforms as automatic tax-compliance tools. Regulators should test governance-focused interventions through targeted pilots, with evaluation stratified by ownership structure, firm size, sector, exchange listing status, and enforcement capacity.

Audit oversight is the most practical pilot area. Securities regulators can require listed firms to disclose audit committee expertise, independence, meeting frequency, and links to internal-control review. Tax authorities can then compare changes in ETR, BTD, audit adjustments, and transfer-pricing documentation quality before and after disclosure reforms. These indicators should be interpreted together. A falling ETR alone may reflect incentives or losses rather than avoidance, while persistent divergence between ETR and BTD may flag firms for closer review.

Composite ESG scores should not serve as stand-alone tax-risk screens. The reviewed evidence shows that aggregate ESG ratings can move in opposite directions across country settings and even within China. A more defensible approach is pillar-level reporting, with governance variables separated from environmental disclosure and CSR expenditure. Tax administrations using ESG information should therefore treat composite ratings as weak contextual signals, not enforcement triggers.

Implementation also requires a stronger data infrastructure. Tax authorities, securities regulators, and exchanges can develop data-sharing agreements that link listed-firm governance disclosures with anonymized tax outcomes. Early pilots could build dashboards tracking ETR, BTD, related-party transactions, audit qualifications, transfer-pricing documentation, and governance attributes. These systems should include safeguards for taxpayer confidentiality and should be evaluated against false-positive rates, not only revenue recovery.

For countries with limited administrative capacity, sequencing matters. Governance disclosure reforms may be feasible for listed firms, but they will not reach SMEs, informal firms, or unlisted state-linked enterprises. Broader compliance gains require parallel investments in audit capacity, simplified filing systems, transfer-pricing documentation rules, and risk-based audit selection. ESG-linked governance information can support that infrastructure, but it cannot replace it.

Three evaluation indicators can track whether pilots are producing useful signals: the share of listed firms disclosing audit committee qualifications and internal-control responsibilities; the difference in ETR and BTD patterns between governance-compliant and non-compliant firms within the same sector; and the proportion of tax-risk flags later confirmed through audit adjustment or documentation review. These metrics would allow regulators to assess whether governance-related disclosures improve tax-risk targeting without assuming a direct causal effect from ESG engagement.

Future Recommendations

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Future research should move from broad ESG-tax associations toward designs that can separate timing, selection, and enforcement effects. Difference-in-differences studies exploiting staggered ESG disclosure rules, governance-code revisions, exchange-listing reforms, or tax-transparency mandates would provide stronger causal leverage than cross-sectional or short-panel designs. Study windows should distinguish pre-2015 ESG adoption, post-SDG disclosure expansion, COVID-era reporting disruptions, and country-specific tax reforms. Multi-year tax measures, preferably three- to five-year ETR and BTD windows, would reduce distortion from single-year losses, incentives, or timing differences.

Environmental and social evidence needs direct construct testing. Environmental studies should examine carbon disclosure, pollution abatement expenditure, environmental penalties, PROPER-style ratings, and carbon-tax exposure while controlling for governance quality. Social-pillar studies should avoid treating CSR expenditure as a substitute for standardized S-pillar scores. Better designs would separate philanthropy, employee welfare, labor standards, community investment, diversity measures, and supply-chain social auditing. That separation would show whether social performance has any independent tax association or whether prior findings reflect reputation management and firm size.

Country-stratified designs are essential. The 14-country panel provides useful breadth, but pooled estimates can conceal country-specific effects and aggregation bias. Future studies should report country-level estimates, random-coefficient models, or interaction terms linking ESG pillars to rule of law, tax-administration capacity, disclosure enforcement, corruption control, and capital-market depth. China-specific work should stratify A-share firms by ownership type, financial constraint, political connection, government pressure, internal-control quality, and tax proxy. One pooled Chinese coefficient cannot resolve the contradictory findings now in the literature.

Administrative tax data would substantially improve the field. Researcher-government partnerships could link anonymized tax filings, audit adjustments, transfer-pricing documentation, related-party transaction records, and firm governance disclosures. Such datasets would allow comparison of listed and unlisted firms, state-owned enterprises, SMEs, and ESG-rated versus unrated companies. They would also permit validation of tax-risk indicators against actual audit outcomes rather than relying only on ETR or BTD proxies.

Measurement discipline should become standard. Studies should name the ESG rating provider, report provider coverage within the target market, document missingness, and test robustness against alternative providers or self-constructed disclosure indices. Where provider comparison is impossible, manuscripts should state that limitation directly. Tax-proxy reporting should also improve: ETR, cash ETR, BTD, discretionary permanent differences, tax-shelter indicators, and ATP indices capture different constructs and should not be treated as interchangeable.

Finally, future models should incorporate civic and cultural moderators. Tax morale, trust in government, perceived corruption, fiscal reciprocity, media freedom, and public-sector legitimacy may determine whether ESG reputational pressure affects tax behavior. These variables would help explain why formal governance improvements may translate into tax restraint in some settings but ceremonial compliance in others.

Conclusions

Developing-economy evidence links governance-related variables more often than other ESG constructs to lower corporate tax avoidance, but the literature does not establish a broad causal ESG constraint. Board independence, audit oversight, institutional ownership, and internal control provide the most plausible channels, although most studies remain associational and limited to listed firms. Environmental and social-pillar evidence is sparse, and CSR expenditure should not be treated as a substitute for standardized social ESG scores. Composite ESG findings vary by country, rating provider, tax proxy, and institutional context. Policy use should therefore proceed through targeted governance-focused pilots, stronger enforcement capacity, and better tax-data infrastructure rather than through reliance on aggregate ESG ratings.

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Additional Information

Author Contributions

All authors have reviewed the final version to be published and agreed to be accountable for all aspects of the work.

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Data Availability Statements

Data sharing is not applicable. This work is theoretical; no datasets were generated or analyzed.

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