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Abstract: Based on a large international sample, we examine the effects of CSR on the cost of equity under different levels of investor protection. In countries where investor protection is strong (poor), our results show that the cost of equity falls (rises) when a firm invests in CSR. Our findings are robust to alternative variable definitions, sample selection, analyst forecast bias, and various methodological specifications. We also demonstrate that the *investor base channel* is able to explain different outcomes regarding the relation between CSR and the cost of equity, and we derive implications for both financial practice and public policy.

JEL classification: G32, G34, L2, M14

Keywords: Agency Theory, Corporate Social Responsibility, Cost of Equity, Investor Protection, Stakeholder Theory

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