"Business as Usual: Bank Net Zero Commitments, Lending, and Engagement"

by Pari Sastry, Emil Verner, David Marques-Ibanez

Discussion by
Omar Rachedi
Esade Business School

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- Evaluates effects of voluntary commitments on lending to brown firms
- Finds that net zero banks:
  - do not divest from brown firms nor scale up green lending
  - do not foster borrower engagement (target-setting or emissions reductions)

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- Finds that net zero banks:
  - do not divest from brown firms nor scale up green lending
  - do not foster borrower engagement (target-setting or emissions reductions)
- Voluntary commitments do not green bank loan portfolios ($\approx$ greenwashing)

My Take on the Paper

- Very nice and topical paper — delivering an unfortunate truth
- David and coauthors take the identification challenges seriously
- Yet, there is room for improvement — addressing these could make the paper even stronger

My Comments

1. Identification strategy
2. Econometric setting
3. Interpretation of the results
4. Selection into voluntary commitments
5. Role of the supply chain

Identification Strategy (1/3)

- Triple-differences regression

$$Y_{b,f,t} = \alpha_{b,f} + \delta_{f,t} + \beta_1 \times PostNZBA_{b,t} \times SectoralTargets_{b,f} + \epsilon_{b,f,t}$$

- What is the triple-difference comparing?

  - How lending to targeted vs. non-targeted sectors changes after vs. before NZBA commitments
  - ... and whether this change is different for NZBA banks relative to non-NZBA banks

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- β_1 **captures whether NZBA banks shift their lending to targeted sectors differently over time, compared to non-NZBA banks**

Identification Strategy (2/3)

- Triple-difference tackles banks' endogenous decision to make commitments on specific sectors
- Simple DiD: *Absent treatment*, the outcome evolution in treated and untreated would have been the same (parallel trends assumption)
- This is valid when treatment assignment is (i) random; (ii) as-good-as-random conditional on observables; (iii) driven by exogenous shocks or rules
- Endogenous treatment: biased DiD because treated and control may have different trends
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- Triple DiD works by introducing a third difference — another dimension along which units differ, which helps absorb or control for confounding trends
- **Absent NZBA membership $\rightarrow$ any trend differences between targeted vs. untargeted sectors should look the same across bank types**

Identification Strategy (3/3)

- Yet, this approach does not tackle the endogeneity of joining the Net Zero Banking Alliance
- Strong selection: NZBA banks are way larger than the rest ($\approx$10x larger in total assets)
- From 2018, lots of thing happen (especially in 2020) which have influenced asymmetrically large vs. small banks
- To wash out these concerns, instrument NZBA decisions — possibly, with ESG-orientation of board members
  Di Giuli and Kostovetsky (2014)

2. Econometric Setting (1/2)

- The setting is a staggered triple-difference regression: NZBA joining dates vary between April 2021 and May 2023
- It is not clear how the set of treated banks is defined:
  - Descriptive stats mention 44 banks
  - Previous draft refers to 34 banks
  - Table 1 lists 53 banks with NZBA commitments

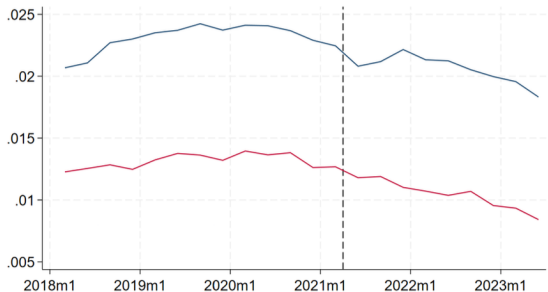
2. Econometric Setting (2/2)

- This setting does not estimate the average treatment effect but rather a weighted average of many different treatment effects
  - Some comparisons are early treated vs later treated $\rightarrow$ this induces bias
  - Some weights can even be negative $\rightarrow$ making the estimate hard to interpret
- If treatment effects are heterogeneous across cohorts (e.g. early joiners vs. late joiners), or dynamic over time (effects grow or fade), then:
  - Estimate is not an unbiased estimate of any meaningful treatment effect
  - Bias can be large and unpredictable
- To deal with this issue, use group-time average treatment effects
  Callaway and Sant'Anna (2021)

3. Interpretation of the Results

Figure 3: Lending to Mining by NZBA and Non-NZBA Banks

(a) Lending Share to Mining



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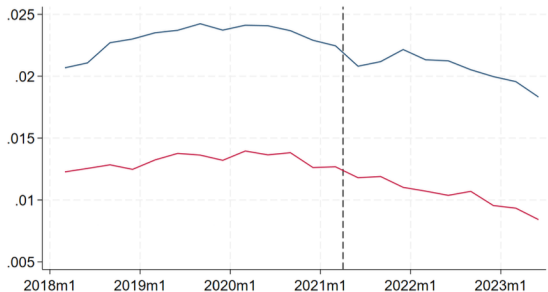

- Lending share to mining declines for both treated and untreated banks
- Could the null effect simply reflect that **all banks** are reducing the carbon footprint of their loan portfolios?
- In this case, rather than greenwashing, the pattern would suggest greenhushing

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- Analysis suggests that net zero commitments are a free lunch
  - Net zero banks do not alter their lending behavior
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- Analysis suggests that net zero commitments are a free lunch
  - Net zero banks do not alter their lending behavior
  - Net zero banks enjoy higher ESG ratings (and potentially lower funding costs)
- Why don't all banks join net zero commitments?

5. Role of the Supply Chain

- Could net zero banks selectively cut lending to brown firms not connected to their green-firm customers?
- To avoid raising input costs that reduce profitability of green-firm customers
  Giannetti & Saidi, 2019
- This effect should be stronger when supply chain disruption is costly (proxied by industry-specific assets)
- Suggestion: exploit input-output linkages to test this hypothesis in current framework

Thank you!