Impacts of ESG Banking Regulation on Financing New Sustainable Transportation Technologies

Lena Schreiner
European Central Bank
Email: Lena.Schreiner@ecb.europa.eu

Andreas Beyer
European Central Bank
Email: Andreas.Beyer@ecb.europa.eu

Abstract

How does environmental, social and governance related regulation of banks affect capital provision to the sustainability transition? Within the context of ambitious sustainability policy targets facing funding challenges, the financial sector is assigned a key role in channeling more private-sector capital into sustainable investments. However, a trade-off arises if the scale-up of sustainable technologies (partially) requires investments into non-ESG-compliant assets, e.g., in the production of windmills, solar panels, and the mobility transition. Regarding the latter, an extensive shift to battery electric vehicles requires a considerable expansion of the supply of battery raw materials, such as Lithium, Cobalt, Manganese, and Nickel. This paper provides an analysis of this trade-off, answering the question how ESG regulation of banks impacts the capital provision to battery raw material mining companies. Concretely, we assess the impact of the European Union's Sustainable Finance Disclosure Regulation and of the Taxonomy on banks' public holdings structure and cost of capital, based on two large, novel data sets. We find that the introduction of the ESG regulations has a dampening effect on the affected banks' holdings in battery raw material mining companies, in particular those with poor ESG performance. Meanwhile, the companies cost of capital, as well as their lending behavior remain unchanged.