

Carbon Disclosure And Governmental Kickbacks: Evidence From The U.S. EXIM Bank

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Motivation



- Firms are key actors for global climate change.
- Largest 100 companies account for 71% of GHG emissions.
- Challenging to have national level legislation.
- But voluntarily disclose schemes exist.



Literature

Why do firms **voluntary** disclose?

- Private Actors as audience
 - to appeal to green customers
(e.g., Chrun et al 2008; Delmas and Toffel 2008; Ahlquist and Mosley 2021)
 - to follow investor demands
(e.g., Connelly et al 2011; Khanna and Anton 2002; He et al 2013)
- Government Actors as audience
 - to pre-empt forthcoming regulation
(e.g., Toffel and Short 2011; Hsueh 2019; Malhotra et al 2019)

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 - Government Actors as audience
 - to pre-empt forthcoming regulation
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- to get **material government support?**

What Firms want

- Our starting point
 - Firms disclose emissions to credibly demonstrate their vulnerability, thereby increasing the probability to receive government support

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- Our starting point
 - Firms disclose emissions to credibly demonstrate their vulnerability, thereby increasing the probability to receive government support
- Our Case: The U.S. EXIM Bank
 - Government Agency
 - Facilitates U.S. exports by providing loans and guarantees.
 - Primary objective: Support U.S. jobs.

Why use EXIM Bank?

- Government:
Why use EXIM loans vs. using other types of support?
 - Targeted: Tax breaks are hard to target to specific recipients
 - Speed: Faster than legislative action
- Firms:
Why reveal emissions vs. lobbying or campaign contributions?
 - Fit: EXIM loan allocation process does have some environmental criteria
 - Efficiency: signals to multiple recipients simultaneously
- Expectation:
Carbon disclose should make EXIM support more likely.

Macro-level correlations

Carbon Disclosure and Likelihood of EXIM support

	(1)	(2)	(3)	(4)	(5)	(6)
Coefficient estimate						
CDP_t	0.026*	0.026*	0.026*			
CDP_{t-1}				0.023*	0.023*	0.024*
Fixed effects						
Year		✓	✓		✓	✓
State			✓			✓
N		82,192			72,841	

Large substantive effects ($\sim 60\%$) against 3.0% baseline.

Macro-level correlations

Carbon Disclosure and different measures of EXIM support

	EXIM Dummy	Amount Approved	Amount Disbursed	Count Projects
Coefficient estimate				
CDP	0.026* (0.003)	5.497* (1.787)	4.737* (1.653)	4.795* (1.393)
Fixed effects				
Year	✓	✓	✓	✓
State	✓	✓	✓	✓

The politics

- Fine, there is a macro-level correlation.
But where is the politics and what is the mechanism?
- We argue that it is about two actors:
 - Bureaucrats who run the bank
 - Politicians who control the bank
- Need to understand the process of how the EXIM bank works and how politics shapes this process.

The EXIM process

1. Re-authorization: specific foci?
2. Application Intake: basic completeness?
3. Application screening: eligibility requirements met?
4. Risk assessment: risks known and evaluated?
5. Credit structure: determine financing conditions
6. Credit decision: Yay or nay?

The EXIM process

Involvement of Politicians

1. Re-authorization: changes to charter?
 - "Rep. Alexandra Ocasio-Cortez (D-NY) and Rep. Rashida Tlaib (D-MI) have proposed amendments to prevent funding of fossil fuel driven energy production and regulate greenhouse emissions from potential projects"
 - Oversight by U.S. House Committee on Financial Services and the U.S. Senate Committee on Banking, Housing, and Urban Affairs.
2. Application Intake: basic completeness?
3. Application screening: eligibility requirements met?
4. Risk assessment: risks known and evaluated?
5. Credit structure: determine financing conditions
6. Credit decision: Yay or nay?
 - If support larger than \$10 million, approval by EXIM board (appointed by the President with the consent of the Senate).
 - Advisory Committee appointed by EXIM Board. Must include environmental stakeholders.
 - The Council on Climate

The EXIM process

Involvement of Bureaucrats

1. Re-authorization: changes to charter?
2. Application Intake: basic completeness?
 - If larger than \$10 million, applicant must submit "Environmental Screening Document" (Annex B)
3. Application screening: eligibility requirements met?
 - Decide which mandate applies (Category A, B, or C)
4. Risk assessment: risks known and evaluated?
 - Staff conclude legal, technical, economic and environmental risks
5. Credit structure: determine financing conditions
 - Risk rating is used to calculate the exposure fee
6. Credit decision: Yay or nay?
 - If smaller than \$10 million, approval by EXIM staff with delegated authority

Expectations – Bureaucrats

- Argument
 - Bureaucrats need transparency. Even if a firm is dirty, better to know this in the first place. It makes risks manageable.
 - Transparency about dirtiness matters, while being dirty in itself matters less. After all, see conflicting objectives "saving the environment" vs. "saving U.S. jobs"
- Expectations
 - H1 Information about emissions increases likelihood of support, particularly more credible and reliable information
 - H2 Firms revealing emissions will get support, even if it is dirty.

Expectations – Politicians

- Argument
 - Need to bridge a gap between a) "I am environmentally friendly," and b) "I am supporting U.S. jobs."
 - No support to dirty firms via EXIM directly, as that would be highly visible.
 - However, if they want to support dirty firms, politicians can defend their decision better if they can tell a story about "good firms" that are transparent – even if they are dirty.
- Expectations
 - H3 No direct support: Politicians (i.e. the board) will not support dirty firms publicly.
 - H4 Indirect support: However, politicians will help get EXIM support via lobbying, particularly if firms reveal emissions.

Data

Original data set of firm-level data.

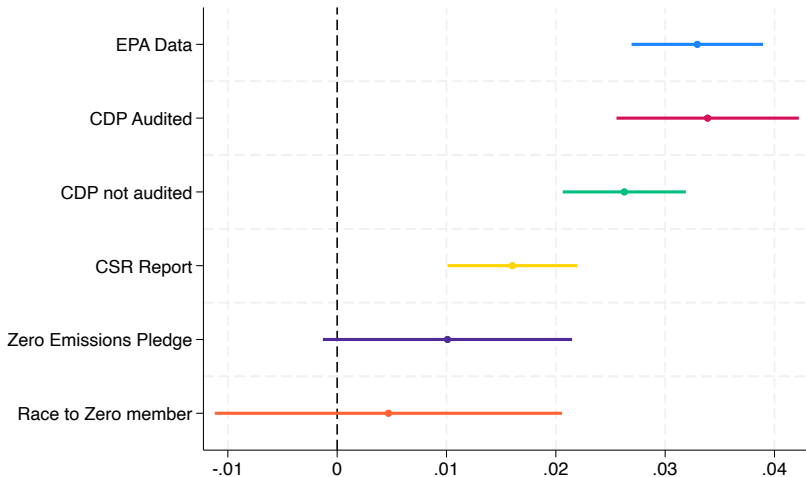
- 2010-2019
- Universe of US Fortune 500 firms, $n = 770$ firms
- Carbon Disclosure Project (CDP) data (disclosure rates: 44%-53%)
- EXIM bank projects data, annual loan information (\sim US\$75bn/ year)

Key variables:

- DV: EXIM project (0/1) in firm i and year t
- IV: CDP participation (0/1) of firm i in year t

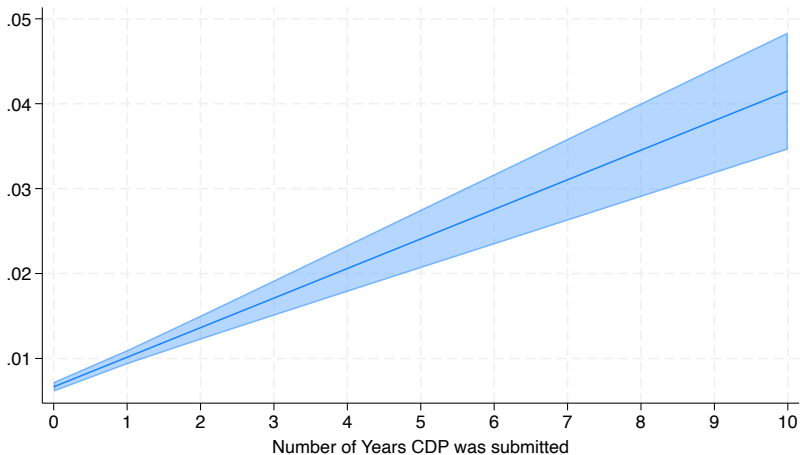
Bureaucrats

H1: Credibility of Information



Bureaucrats

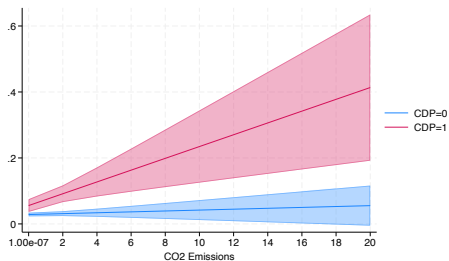
H1: Strength of Information



Bureaucrats

H2 & H3: Support for dirty firms

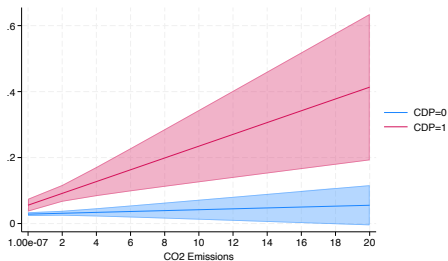
Bureaucrats
($< \$10$ mio.)



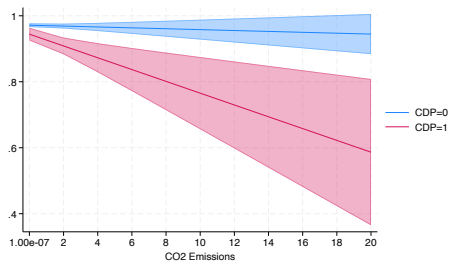
Bureaucrats & Politicians

H2 & H3: Support for dirty firms

Bureaucrats
($< \$10$ mio.)

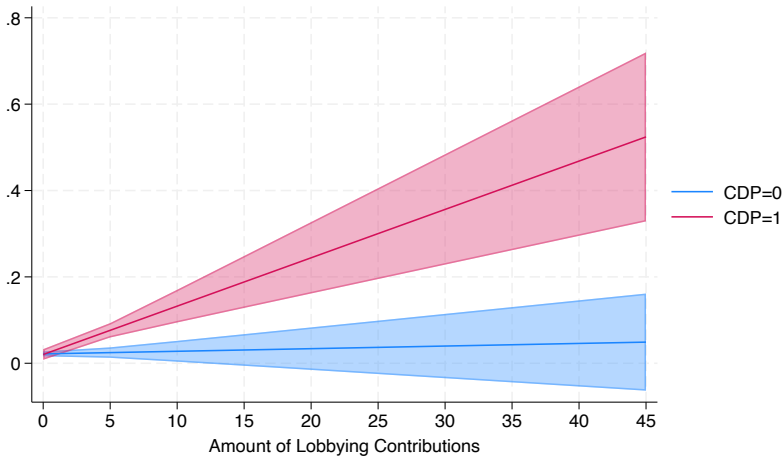


Politicians
($> \$10$ mio.)



Politicians

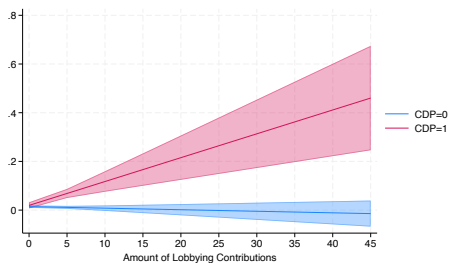
H4: Politicians do support dirty firms indirectly



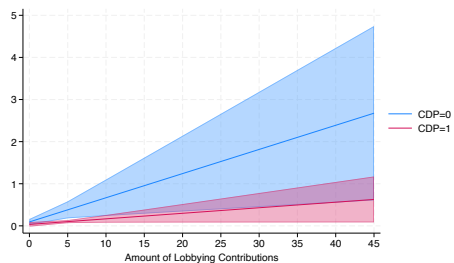
Politicians

H4: Politicians do support dirty firms indirectly

Dirty Firms



Clean Firms



Conclusion

Findings

- Firms disclose emissions to credibly demonstrate their vulnerability, thereby increasing the probability to receive government support
- Bureaucrats want transparency to manage risk.
- Politicians want to support dirty firms, but not publicly.

Contributions

- Dirty firms have incentive to reveal information
- Optimal obfuscation with bureaucrats vs. politicians.
- New data on firm-level determinants of climate action