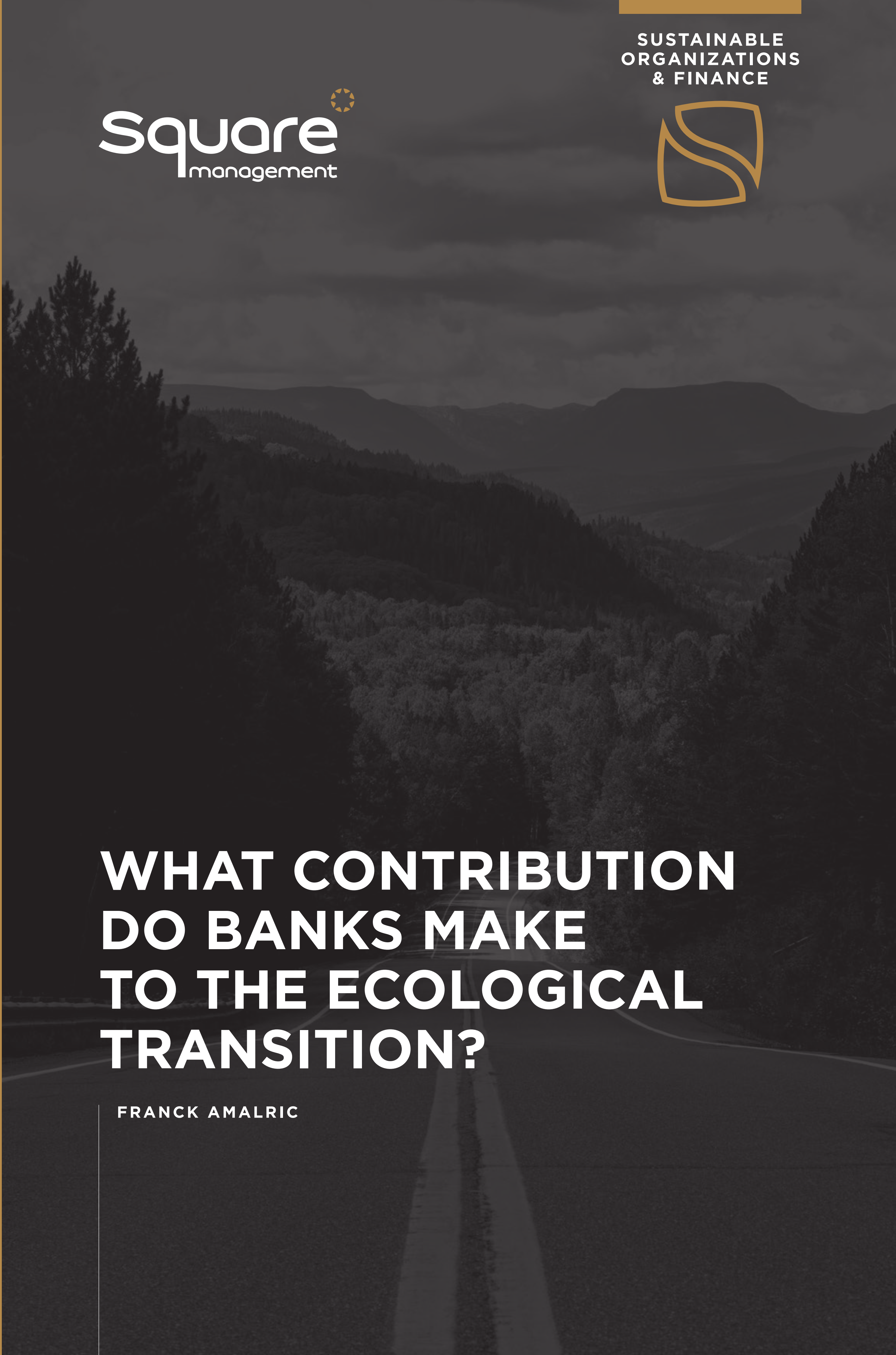
SUSTAINABLE ORGANIZATIONS & FINANCE



WHAT CONTRIBUTION DO BANKS MAKE TO THE ECOLOGICAL TRANSITION?

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INTRODUCTION

On 21 April 2021, several major international banks announced the launch of the *Net-Zero Banking Alliance* (NZBA) under the auspices of the United Nations to promote the transition to low-carbon economies. By becoming a member of this Alliance, banks say that they will be "facilitating the necessary transition in the real economy through prioritising client engagement, and offering products and services to support clients' transition".

The *Global Financial Alliance for Net Zero* (GFANZ) was born that same month. By bringing together the NZBA and other similar financial sector alliances or initiatives, the GFANZ aspires to be a "a global coalition of leading financial institutions committed to accelerating the decarbonization of the economy"[1]. More than 450 financial institutions from 45 countries are members, and responsible for over $130 trillion in assets, whether outstanding or under management.

These initiatives are founded on the principle that private economic agents, such as financial institutions, have a responsibility **to actively contribute to the ecological transition** and to the advent of sustainable economies. Reference to this principle is a new development: for the past 25 years, debates on corporate social responsibility (CSR) have revolved around the distinct principle that companies should respect their various stakeholders. Initiatives such as the NZBA are therefore helping to shape a new CSR standard and thereby profoundly changing the way we think about the role of business in relation to the sustainability challenge[2].

1. See www.gfanzero.com
2. Franck Amalric (2021) "*Entreprises et Durabilité : Être Propre ou Contribuer à la Transformation ?*" (Businesses and Sustainability: Be clean or Contribute to the Transformation?) Square, Neuilly-sur-Seine.

It is quite logical for the financial sector to be spearheading this change. The direct social and environmental impacts of financial institutions – banks, insurance, asset managers – are low to negligible; at the same time, they have a potentially high influence on how the economy changes, since they finance a significant proportion of investments. Social expectations of them therefore focus on how they exert this influence, and on their commitment to contributing to the ecological transition.

This study, resulting from the CCET (Contribution of Companies to the Ecological Transition) research programme conducted by the Square Management Research Centre (SMRC), presents an initial analysis of what banks are doing, and can do, to contribute to the ecological transition. It draws on the lessons learned from several assignments that Square Management has completed with banks over the past year, cross-referenced with the conceptual work carried out at the SMRC.

Our methodology is similar to an action-research approach. Our objective is to strengthen the empowerment of companies who wish to contribute to the ecological transition, by thoroughly analysing their actions in context. In contrast to benchmarking approaches that are, at best, only useful for propagating good practices that have already been implemented, the action-research approach, which focuses as closely as possible on actions and how they are implemented, aims to explore what is feasible. This approach supports the prevailing transition theory, which is founded, as we shall see, on the empowerment of all economic stakeholders.

There are three main parts to this document.

In the first part, we set out the context in which the new CSR standard that we call CCET (Contribution of Companies to the Ecological Transition) is emerging, and present the conceptual framework, derived from a transition theory that illustrates how a company can contribute to this transition. This framework includes two main dimensions: stakeholder empowerment, and the economy's structural transformation.

Following on from this framework, the second part examines how banks are attempting to empower their stakeholders, while the third part analyses how banks influence the changing structure of the economy through their customers.

In conclusion, we draw a number of lessons from this analysis.

1.

THE EMERGENCE OF A NEW CSR STANDARD

1.1 THE ECOLOGICAL TRANSITION, A NEW PROGRAMMATIC HORIZON

In December 2019, the European Commission announced its commitment to the ecological transition in its communication on "The European Green Deal". Its objective is to transform Europe's economy and society «to put them on a more sustainable trajectory»; more specifically:

> *a new growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.*

The European Green Deal is a political programme of unprecedented magnitude. Its ambition is as great as the challenge - immense. The economic growth pattern of the last two centuries in Europe shows a strong correlation between said growth and greenhouse gas emissions or resource use. Although decoupling has been observed in recent years in Europe to an extent, achieving a complete decoupling would be unprecedented.

One of the features of the Green Pact is its insistence on the idea that the transition's success depends on a very broad collective effort:

> *Since it will bring substantial change, active public participation and confidence in the transition is paramount if policies are to work and be accepted. A new pact is needed to bring together citizens in all their diversity, with national, regional and local authorities, civil society and industry working closely with the EU's institutions and consultative bodies.*

What needs to be enlisted is not just the citizens' support for the implementation of ambitious policies. Rather, it is a matter of calling on all stakeholders to contribute in their respective capacities. This involvement can then be seen as a collective empowerment movement, through which a multiplicity of economic agents acts, in a decentralised and coordinated manner, to bring about the transition.

This involvement is therefore seen as the agency that transforms society. This is a new departure in European political history. At the end of the Second World War and during the "trente glorieuses" (post-war boom in France), the state acted as the agent of transformation; from the beginning of the 1990s, in a context of economic globalisation, businesses took over. But, faced with the challenges of sustainability, neither the State nor companies have the capacity to drive the required transformation. Hence this call for the active involvement of all the stakeholders concerned.

Although new, this idea is now widely supported. For example, the authors of the ZEN 2050 Study, published by Entreprises pour l'Environnement (Businesses for the Environment) in 2019, noted that "One condition for the acceptance of this under-taking is joint mobilisation of national and local authorities, businesses and consumer citizens and their adherence to a shared narrative" to achieve carbon neutrality[3] (p. 7). In the same spirit, the 150 citizens of the Citizens' Climate Convention wanted to "tell French society" that all stakeholders must feel engaged:

> *we all need to fundamentally change our behaviours to leave our children and grandchildren with a viable planet. We must act faster and with greater force than to date (...) It cannot be left up to others to make the effort. Citizens, public authorities, economic actors, NGOs, we all need to show solidarity in the face of the climate emergency, by making social justice one of the driving forces behind our thinking*[4].

This engagement creates a new standard of corporate social responsibility, **contributing to the ecological transition.**

1.2 THE NEW INJUNCTION TO COMPANIES: CONTRIBUTE TO THE ECOLOGICAL TRANSITION

Almost ten years ago, the philosopher François Valleys stated that "Since the current system is not sustainable, as humanity's ecological footprint increasingly exceeds the planet's bio-capacity, the mission of any socially responsible organisation has to be to transform the system"[5].

When his book was published, it did not resonate with the CSR community, perhaps because the sustainability debate was not yet mature enough to challenge the dominant principle that CSR was about looking after the company's stake-holders. Since then, the diagnosis that "the current system is not sustainable" has garnered a broad political consensus (Paris Agreement), and the European institutions are developing a programmatic approach to «transforming the system» (Green Deal for Europe). In this context, the Vallaeys injunction – "the mission of any socially responsible organisation has to be to transform the system" – is a new CSR standard. More specifically, each company must participate in the collective empowerment movement by proactively contributing to the ecological transition.

Public authorities themselves are asking compa-nies, particularly those in the financial sector, to make this contribution.

For example, the 2019 French Energy-Climate law provides that:

3. Entreprises pour l'Environnement (EPE) (2019) « ZEN 2050. Imaginer et construire une France neutre en carbone ». Paris, EPE. Our translation.
4. *Convention Citoyenne pour le Climat (2020) Les Propositions de la Convention Citoyenne pour le Climat*. (Citizen's Climate Convention – CCC's Climate Proposals) Paris. p. 9. Our translation. https://www.lecese.fr/sites/default/files/pdf/Convention/ccc-rapport-final.pdf
5. François Vallaeys, *Pour une Vraie Responsabilité Sociale Clarifications, propositions*. (Towards real social responsibility – clarifications and proposals) Presses Universitaires de France, Paris, 2013, p.17. Our translation.

> *Portfolio management companies shall make available to their investors and to the public a document setting out their policy on the inclusion of environmental, social and governance criteria in their investment strategy and the means implemented* ***to contribute to the energy and ecological transition*** *as well as a strategy for implementing this policy*[6].

Similarly, the European Commission, in a recent communication on financing the transition to a sustainable economy, states:

> *Beyond the management of sustainability risks by financial institutions, the success of the European Green Deal depends on the* ***contribution of all economic stakeholders*** *and on their incentives to meet our targets. To that end, financial institutions must translate EU sustainability goals into their long-term financing strategies and decision-making processes. This includes better measuring, monitoring and disclosing progress on a regular basis*[7].

1.3 THE BANKS' RESPONSE

In France, and in addition to joining the *Net Zero Banking Alliance* on its launch in 2021, all major banks are now announcing explicit ambitions regarding the role they wish to play in the ecological transition (see Appendix).

But there are nuances in the terms they use: "contribute to a transition" (Société Générale); "act for the Climate and the transition to a low-carbon economy" (Crédit Agricole Group); "support the energy, ecological and social transition of communities" or "support our customers in the energy, ecological and social transition" (BPCE Group). And these nuances suggest we need to clarify what constitutes a fair ambition on the part of the banks.

It must be remembered that banks are not in the front line and can only act in favour of the transition through their clients. When said clients require financing to implement projects that move in that direction, then the bank that provides the financing can say it is supporting its clients in the transition.

But is it correct to describe this type of support as a **contribution** to the transition, when it is merely responding to a request? In a competitive market, if an economic stakeholder can simply turn to any bank to secure the credit he or she wants, then the bank that provides the credit has no influence on the investment decision or its implementation, and therefore has no impact on society in the process. There is no real "contribution" unless the bank is proactive, unless it makes a specific effort. And even then, we would need to be able to qualify that effort.

1.4 CCET: A NEW CONCEPTUAL FRAMEWORK FOR A NEW CSR STANDARD

How can a company contribute to the ecological transition?

Any answer to this question refers to a theory on transition: starting with a perspective of the transition process, based on the behaviours of the various economic stakeholders, we can assess the impact, positive or negative, of a company on the process[8].

6. Article 29 paragraph 3. We underline; our translation.
7. European Commission (2021) 'Communication from the Commission to the European Parliament, the Council, the EUROPEAN Economic and Social Committee and the Committee of the Regions. Strategy for financing the transition to a sustainable economy, Strasbourg, 6.7.2021. Page 17, we underline..
8. For this reason, it is not enough to say that the company must reduce its ecological footprint or contribute to social well-being. Because this response is not bound to a transition theory. Or rather, the theory that the transition could consist of every company taking care to reduce its environmental footprint is wrong.

The theory is not prescriptive, it does not state what needs to be done at the level of society as a whole. This would be pointless since there are no agents who can act at that level. Nor is it a plan that would be structured without considering the dynamics of economic agents' actions. But it serves as a reference for each of the stakeholders to state what they must do, with the promise that if all stakeholders act accordingly then society will change in line with the transition we desire.

It includes two main elements - a model of how the economy works that reflects the challenge and the objective (sustainability); and a factor that represents the agent of transformation, or the "engine" of evolution. Consistent with the above, this agent must be the collective empowerment movement.

The objective of sustainability invites us to analyse the way the economy functions by distinguishing between the "activity of the economy», which covers all economic activities, and the «structure of the economy", which is made up of the factors that underpin, facilitate and regulate the activity of the economy. A diagnosis of unsustainability is then pronounced when the activity of the economy erodes the economy's structure to the point where it can no longer support the activity in the future.

The main factors that make up the structure are natural capital, human and physical capital, regulations, and "culture", in the sense of the economic stakeholder preferences. Referring implicitly to this model, the TCFD – *Task Force on Climate-related Financial Disclosures* set up by the *Financial Stability Board* – proposed structuring the analysis of sustainability risks to companies in terms of the evolution of these four factors[9]. Economic stakeholders, in return, influence the structure of the economy. The way the economy works and, above all, evolves are therefore analysed from the point of view of the relationship between the economy's activity and its structure.

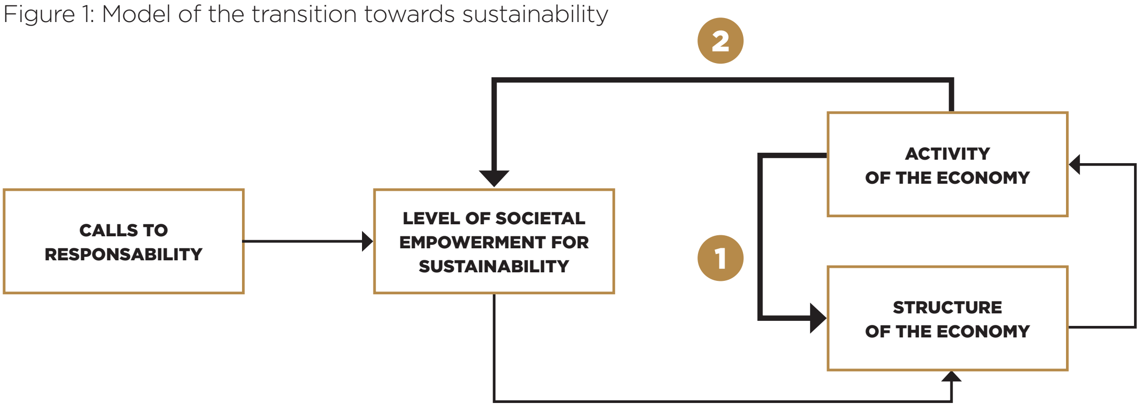
This model of how the economy works is consistent with the assumption that the agent of social transformation can only be a movement of collective empowerment. The transformation of the economy's structure for sustainability requires action by all economic agents: the State acting on regulations, individuals on their preferences, and companies on technological and physical capital. The level of "social empowerment for sustainability" is the third central factor in our transition theory.

Finally, we include in the theory the assumption that the level of social empowerment for sustainability depends partly on calls to act responsibly from stakeholders outside the economic sphere (scientists, environmental NGOs), and partly on the activity of the economy.

From this transition model, we infer that a company's contribution to the ecological transition (CCET) is divided into two broad categories of actions: contributing to transforming the structure of the economy, and contributing to the process of social empowerment for sustainability. And both of these categories are made up of several subcategories. The whole constitutes the CCET matrix.

9. The link between the DFCT matrix and our economic structure model is clear: physical risks arise from changes to natural capital; and transition risks come from new regulations, technological innovations (physical & human capital), and changes in customer preferences (culture).

Figure 1: Model of the transition towards sustainability



1. Helping to transform the structure of the economy
   - Reducing the negative impact / increasing the positive impact of its activities on natural capital
   - Contributing to the development of human and physical capital in alignment with the issue of sustainability
   - Contributing to the evolution of regulations in favour of the transition
   - Contributing to the cultural evolution required for sustainability
2. Contributing to social empowerment for sustainability
   - Raising awareness of the plurality of possible futures
   - Helping stakeholders acknowledge their own responsibility to act
   - Helping stakeholders understand what they can do

It is through the lens of this CCET framework that we will now describe the actions implemented by banks that have committed to contributing to the transition, as well as the actions that would enable them to go further in their efforts.

2.

EMPOWERING STAKEHOLDERS

We begin by exploring the positive influence that banks have, or could have, on the process of social accountability for sustainability (arrow 2 in Figure 1). This process constitutes, as we have seen, the transition engine; and banks have an important, if not fundamental, role to play. They could then strengthen efforts by scientists and NGOs to raise the level of accountability for sustainability.

We see three key steps in this process; 1) realising the nature of the challenge; 2) recognising the responsibility to act; and 3) understanding the nature of that responsibility and the actions that stem from it.

2.1 RAISING AWARENESS: OPENING UP FUTURES

Faced with the challenge of sustainability, the future is not, or no longer, determined by some random law of evolution of human societies; it can no longer be described or even thought of as the linear continuation of ongoing progress. This future has become dependent on how "we" are going to manage the environmental impact of the economy's activity, and how the economy is managed depends on the level of social empowerment for sustainability. This is why climate scientists write the future in the form of scenarios. The sustainability challenge 'opens up the future'.

Awareness of the plurality of possible futures (what we might call "the opening up of the future") is a prerequisite for the social empowerment process. Stakeholders need to envisage the plurality of possible futures before joining a movement to bring about a desirable future.

Whether they know it or want to, banks play and will play an important role in raising awareness among economic actors that the future is open. As analysts of the risks within the economy, they are immediately impacted by the opening up of the future; and the European prudential authorities are asking them to inform economic stakeholders that the current organisation of the economy is not sustainable.

— Let us clarify this point.

Market economies rely on the ability of the pricing system to transmit key information on the state of a market – such as future developments in supply and demand – to economic stakeholders. This system works well when markets are working well. However, when it comes to sustainability issues, markets are lacking (myriad negative external factors) and prices do not convey reliable information. In particular, prices do not adequately take into account the sustainability risks that companies face, which means that one of the main radars companies use to drive their strategies and operations is giving out the wrong signals. This leads to a loss of performance for the companies and a misallocation of resources within the economy.

This problem affects non-financial enterprises in the first instance and the banks that fund them in the second instance. The European (ECB, EBA) and French (ACPR) prudential authorities are aware that the transition to sustainable economies requires a resilient financial sector. They have not forgotten that the last major economic crisis (before the COVID period) was caused by the financial sector's inability to properly assess certain risks, and are concerned about the banks' exposure to these new risks. Over the past two years, they have issued an increasing number of statements and advisories on how banks assess and manage sustainability risks[10].

But banks do not just assess these risks for themselves. One of the ways they can manage these is to help their clients to become aware of the materiality of sustainability risks, and their management. To this end, the major groups have designed questionnaires for small businesses, professionals, farmers, etc., to help them make an initial diagnosis of their vulnerability to sustainability risks. These questionnaires are used as a basis for a discussion with an advisor on how the client perceives the issues.

What is at stake here, through an apparently innocuous questionnaire, is the transmission of the fundamental idea that sustainability challenges open up the future, which has suddenly become very uncertain for a vast number of economic players. This transmission is very difficult to achieve, and banks realise this when they put together and send these questionnaires. This is because they clash with the deeply rooted cultural habit of thinking of the future in linear terms, a resolute advance of progress.

2.2 ENGAGING: ACKNOWLEDGING ONE'S OWN RESPONSIBILITY TO ACT

There is an important step between an economic stakeholder becoming aware of a societal problem, and their recognition of their own responsibility to contribute to finding a solution. Another possible reaction, apart from defeatism, is to put the onus on other stakeholders - other powerful countries, the state, companies, etc. - to act. The free-market Freedman-style model, which maintains that it is the State's sole responsibility to set the rules of the economic system, contributes to the disempowerment of private economic players with regard to societal issues, for example.

In signing the Principles for Responsible Banking or joining the NZBA, the banks inherently acknowledge their responsibility to contribute to the ecological transition. This acknowledgement is tantamount to accepting that all economic stakeholders must contribute to the transition.

Could banks propagate this theory? Should they? And if so, how?

For the moment, none of the banks are taking any specific action on this issue. However, all the initiatives taken by banks to support their customers in the transition – and which we will detail in part 3 – help to spread the idea that any economic stakeholder can, and must, contribute to the transition.

10. See in particular EBA (2021) 'EBA Report: On Management and Supervision of ESG Risks for Credit Institutions and Investment Firms', EBA/REP/2021/18.

2.3 GUIDING: UNDERSTANDING WHAT TO DO

La Banque Postale, in cooperation with Carbo, a young company specialising in carbon footprinting, is offering its private and small business customers who are interested, an assessment of their carbon footprint based on the expenditure recorded in their bank account. BNP Paribas is doing the same thing in partnership with Greenly.

By enabling their customers to become aware of their impact on the environment, banks can play a role in spreading knowledge about what individuals or professionals can do to contribute to a sustainable economy. This is the third step, after the realisation that the future is open, and the recognition of one's own responsibility to act, of the empowerment process.

There is an indirect benefit to the banks of doing this. Above all, they are looking to strengthen their image as a community-minded business that wishes to play a positive role in the ecological transition. In addition, the appeal to take responsibility may give rise to a desire to reflect on what a stakeholder can do at his or her level, and subsequently to a request for advice on ecological transition. For example, an individual who undertakes a carbon footprint assessment will realise that he or she can reduce his or her footprint by investing in an energy efficient home renovation, or by buying an electric car. And this could ultimately trigger a loan application.

Banks have two important strengths to draw on in this regard. Firstly, they have a very large number of customers, since the bank penetration rate for adults is close to 100% in France and all companies are effectively required to have a bank account. And then, via the payments that go through bank accounts, they have unique access to consumer spending data that is useful for assessing the environmental footprint of the stakeholders.

Will banks be able to use these strengths to have a significant impact on the orientation economic stakeholders will take? It is too early to say. But if they are to do so, they will have to be able to move on from providing diagnostic tools to promoting their use. And that presupposes that they acquire sufficient legitimacy to actively promote the empowerment process.

3.

TRANSFORMING THE STRUCTURE OF THE ECONOMY

One of the four factors that make up the structure of the economy is physical capital. It includes factories, buildings, machinery, in short, the different assets of the manufacturing facilities, as well as housing and vehicles. Investments made by businesses, communities or households to build up this capital are often financed on credit, through loans granted by banks.

Banks do not have a direct impact on the make-up of this physical capital, but they can nevertheless influence their clients' investment decisions by providing "ecological transition advice", by selling "responsible" banking products, or in some cases by declining to finance projects that are not consistent with the transition. When they exercise this influence to bring the evolution of the physical capital of the economy into line with sustainability objectives, then they are making an effective contribution to the ecological transition.

3.1 ADVICE ON ECOLOGICAL TRANSITION

Several players are already established in this field. For example, in 2020, J.P. Morgan, the large US global bank, set up its *Center for Carbon Transition* to help the bank's customers to, quote, "navigate the challenges and long-term benefits of the transition». Rama Variankaval, Head of the Center, explains their mission:

> *The transition to Paris alignment will require big ideas, technology innovation and financing. Rather than just wait for things to play out and react, we want to be proactive and lead in this space. The Center for Carbon Transition enables us to leverage the best of our expertise and resources across the firm to help all our clients thrive in a low-carbon future*[11].

The *Crédit Agricole's Caisse Régionale Pyrénées-Gascogne* (south-west France regional office) is

11. See https://www.jpmorgan.com/solutions/cib/investment-banking/center-for-carbon-transition. On a similar model, BNP Paribas created its Low Carbon Transition Group at the end of 2021.
12. See https://www.ca-pyrenees-gascogne.fr/Vitrine/ObjCommun/Fic/PyreneesGascogne/Binaires/PDF/Plaquette-Offre-BIO.pdf

offering farmers in its area a support package to help them switch to organic farming[12]. In addition to specific financing modalities, the package includes up-front advice to fine-tune the project, followed by other services in the maintenance and post-certification phase. The Caisse has 80 agricultural experts to provide such advice.

Société Générale recently invested in the development of *LaVilleE+*, an urban strategic consulting start-up specialising in co-construction methodologies, in particular with regard to "sustainable city" construction sites.

These three examples - and there could be more - illustrate one of the approaches adopted by the banks in response to the transition's challenge: the development of technical, regulatory or economic expertise on sustainability issues. Based on this expertise, they are creating "end-to-end packages" that combine advisory services, most often ahead of the project launch, but sometimes afterwards too, with tailored banking products. Through these offers, banks are not only responding to a change in customer demand, they are also helping to generate it. It is therefore correct to say that, in this way, banks do contribute to the transition.

The potential demand for this type of advice is significant. In the extremely volatile context of a society that is searching for its transition path, economic stakeholders suffer from a lack of information and knowledge about their strategic challenges, such as, for example, on future new regulations, on the evolution of demand for goods and services on different markets, on the real cost of using energy-intensive equipment, etc. They therefore need expertise and advice in order to make informed decisions[13].

As for the banks, they are gambling that by providing these services, they will be better positioned to finance future investments. Estimates of financing requirements for the ecological transition point to extraordinary growth potential[14].

However, it is uncertain whether the gamble will pay off, as this depends on at least two conditions.

The first is that the bank is competitive and legitimate in the consultancy market compared to other players, such as consultancy firms, who provide a similar service[15]. To achieve this, banks can reduce their costs through production synergies when consultancy content uses elements that the bank already possesses, such as sustainability risk analyses; or through commercial synergies when consultancy provision is based on the bank's own commercial network[16].

The second condition is that the bank retains its client during the transition from the "consultancy" phase to the "financing" phase. Since the bank's business model is based on providing finance to fund the provision of advice, customer retention between these two phases is paramount. However, in order to achieve a positive return on investment on its integrated package as a whole, the bank must in theory secure a higher cost

13. For example, on the energy renovation of buildings, a recent report to the French Senate notes: «One of the priorities for massifying renovations is therefore to improve the information and support of different audiences in complex projects to be implemented from an administrative, financial and technical point of view. » Vincent Descoeur and Marjolaine Meynier-Millefert (2021) Information report on thermal renovation of buildings, Assemblée Nationale, Paris. p.13. Our translation..

14. For an estimate of funding needs, see for example Institut Rousseau (2022) *2% pour 2 °C. Les Investissements Publics et Privés Nécessaires pour Atteindre la Neutralité Carbone de la France en 2050.* (2% for 2°C . Public and Private Investment required to achieve a carbon neutral France in 2050) *Institut Rousseau*, Paris.

15. For a non-bank competitor in housing energy renovation, see for example *Oktave*, a service set up by the *Région Grand Est* and *ADEME*, to support individuals in all phases of their energy renovation project.

16. The limited time of bank advisers is one of the constraints on the spread of these services. The allocation of part of their time to promoting sustainability practices with their customers then becomes a CSR issue.

of credit than certain competitors, who do not invest in the development of expertise, are prepared to accept. The quality of the customer relationship nurtured during the advisory phase must therefore offset the risk of losing competitiveness in the credit market.

The development of these integrated offers raises several specific strategic and operational issues.

The key strategic issue is to identify the expertise that banks might offer different categories of customers (private individuals, professionals, companies, etc.). To answer this, they consider:

- The expertise requirement expressed by the bank's customers (which can lead to a segmentation of customers according to their needs for sustainability expertise)
- The bank's competitive advantage in providing this expertise, versus their immediate bank competitors, and also versus other players
- The ROI – costs and expected returns on investment.

The implementation of integrated packages also raises tricky operational issues. Should the expertise be developed in-house – as in the examples highlighted above – or is it better to partner with a specialist company? What form should this expertise take? Finally, how to adjust customer journeys so that the expertise can be provided effectively? The combination of the choice of expertise, on the one hand, and the different possibilities for acquiring, formatting and communicating it, on the other, opens up a wide range of integrated offers.

Finally, there is the question of ambition and goals. In traditional CSR approaches, the level of ambition was established in relation to an internal corporate framework. For example, the aim was perhaps to reduce paper consumption by 10% from one year to the next as part of a continuous improvement process. In contrast, the objectives of a CCET strategy should be set in relation to a transition target to be achieved collectively, and the level of ambition is then measured in relation to the "fair contribution" that the company should make.

Let's use a concrete example, namely energy renovation for housing. The 2015 Law on the Energy Transition for Green Growth (LTECV) set the objective that the entire housing stock should reach the "*Bâtiment Basse Consommation* (BBC)" (Low Energy Building) standard, i.e., classes A and B of the DPE (energy performance assessment report). This objective has since been confirmed, particularly with the French *Stratégie Nationale Bas Carbone* (SNBC) - National Low Carbon Strategy - of 2020. To decarbonise the sector by 2050, for residential stock (36 million homes, including 29.5 million first homes), the SNBC sets targets of 370,000 complete renovations per year from 2022 to 2027, rising to a rate of 700,000 renovations per year from 2030 to 2050. According to the *Institut Rousseau*, this represents additional annual investments of around 21 billion Euros[17].

If a bank wants to set a target for its integrated "energy renovation" proposal, it should consider these figures. Using some simple cross-multiplication (for example, based on its share of the mortgage market), the bank can measure its "fair" contribution to the collective effort to renovate the housing stock, based on the number of clients it supports.

17. Institut Rousseau (2022) *2% pour 2°C. Les Investissements Publics et Privés Nécessaires pour Atteindre la Neutralité Carbone de la France en 2050.* (2% for 2°C . Public and Private Investment required to achieve a carbon neutral France in 2050) *Institut Rousseau*, Paris.

The results are striking. Typically, we find that banks need to scale up their commitments, whether through state-subsidised zero-interest loans (PTZ), home loans that cover purchase and renovation, or consumer loans, by a factor of 10 or more. From a macro-social perspective, these figures are not surprising since, at the overall national level, the current pace of renovations is much slower than envisaged in the SNBC. However, at the level of an individual bank, the results may give rise to some disbelief. This allows us to measure the immensity of the collective task of decarbonising the economy.

3.2 RESPONSIBLE BANKING PRODUCTS

Most banks have developed a new range of transition-oriented banking products, in response to two different considerations.

The first is to meet the demand. The development of new sectors of activity, such as wind or solar panel energy, may require an adjustment to the banking product range, either in terms of understanding the risks that determine lending decisions or in terms of the financing structure.

The evolution of economic activities therefore generates new demands, and it is in the banks' best interests to respond to these demands, especially in a competitive context. Simply changing supply to meet a new demand is not, in itself, a CSR initiative. However, by accelerating R&D on banking products, some banks are accelerating the implementation of substantial investment projects in support of, and therefore making a contribution to, the ecological transition.

The second motivation is to influence the decisions or behaviours of economic stakeholders through financial incentives linked to banking products. Most banks provide loans at preferential rates to individuals for energy renovation work, or for the purchase of an electric vehicle. They grant the famous *Sustainability Linked Loans* to companies. With these loans, the cost of credit depends on the borrower achieving ESG-type objectives (ESG = environmental, social, governance).

How effectively do these incentive banking products serve the ecological transition? In principle, their effectiveness depends on 1) the relative influence of the cost of credit on the stakeholder's choices, and 2) the amount of the incentive.

To illustrate these two effects, let us consider an individual wishing to renovate his/her home to reduce energy consumption. The cost of the work is estimated at €50,000, and he/she plans to borrow over 10 years. The standard rate is 2.5% per year.

Let us suppose the individual borrows the entire amount. The standard cost of the credit is € 6,562, and the total cost of the work therefore amounts to € 56,562. If the bank were to make the effort of lowering its rate to 2%, this would generate a saving of 2.4% over the whole project for the individual; if the rate drops to 1.5%, the saving will be 4.8%.

If, on the other hand, the individual only borrows € 20,000 from the bank because he/she takes out a zero-rate State-subsidised loan, or makes a personal contribution, then the potential savings of a rate reduction by the bank would only represent 1% (at 2% rate) or 2.8% (1.5% rate) of the total renovation project cost[18].

18. This example illustrates an important general point: subsidies provided by a public entity for an investment project reduce the effectiveness of the efforts made by banks in the form of lower rates (all other factors being equal). The reason is simply that the subsidy reduces the relative share of the credit cost in the total project cost.

Is a drop of this nature likely to influence the stakeholders' decision? This kind of incentive soon hits a wall, because the bank has very little room for manoeuvre. In certain markets (e.g. home loans) the banks' margin is minimal so the potential for reducing credit costs is necessarily very limited. While there is, to our knowledge, no scientific study on the impact of bank incentives in the form of lower interest rates, it is doubtful, for the reasons given above, whether they are effective in promoting the ecological transition.

However, where *Sustainability Linked Loans* (SLLs) are concerned, financial incentive may be a secondary factor. Typically, with the SLLs that banks grant to companies, the cost of the loan depends on the company's performance against ESG (environmental, social and governance) criteria: achieving predefined targets lowers the interest rate.

There are therefore two sides to SLLs: financial incentives, and a kind of ethical contract. CSR commitments are, by definition, voluntary. By tying them into an SLL, the bank becomes a witness to the company's approach, thereby strengthening the company's drive to implement its commitments. We can ask ourselves which of the two aspects has the most influence on the company's behaviour.

3.3 REFUSING TO FINANCE

To what extent should banks refuse to grant credit to certain customers, or for the purpose of certain activities, if they go against the ecological transition?

This punitive type of mechanism, in contrast to the positive ones we have just seen, is already widely used. In particular, several large French banks have decided not to finance certain activities – particularly in the coal sector – that are considered to be incompatible with a transition path towards sustainable economies.

Should the banks go further down this road? For example, should they refuse to finance new hydrocarbon projects as some NGOs advocate, the purchase of homes with poor energy performance or the purchase of vehicles with internal combustion engines?

The subject is both complex and highly controversial, which makes it particularly delicate to address. We shall therefore only briefly mention a dilemma that arises when we approach the subject from the perspective of this study - can refusing to finance contribute to the ecological transition? (We will therefore not consider the ethical stance that would warrant a refusal to finance on the grounds that it would be immoral to be involved with the project or company). This dilemma pits effectiveness against legitimacy.

Let's start with the question of effectiveness. From the perspective of contributing to the transition, the refusal to finance must be justified by the impact that this refusal may have on the controversial activity being carried out[19]. However, in a fluid competitive market the possibility of such an impact is considerably reduced. In a

19. In contrast, the refusal to finance in order not to be involved with controversial operations (ethical argument) is effective in itself: by refusing to finance an operation of that nature, the bank will not be associated with it.

context such as this, a bank's refusal to finance a company solely on the grounds of its operations' carbon impact is unlikely to limit that company's borrowing capacity. The refusal to finance will then only be effective if the other major players in the sector also refuse to finance the operations concerned. Effectiveness therefore relies on the ability of banks to act in a concerted manner to define a market standard[20].

But how can banks legitimately set such a standard? Successful self-regulatory standards, such as the Equator Principles, have been drawn up under the supervision of political authorities. In the case we are considering, however, these standards could go against the will of the politicians concerned.

This dilemma is particularly acute today for new projects to extend operations on hydrocarbon deposits. NGOs are asking banks not to finance such projects, taking as a reference the "roadmap" formulated by the International Energy Agency to achieve carbon neutrality by 2050[21], which presupposes, and this is its key element, an end to the development of new fossil fuel fields[22]. But the roadmap is by no means a political agreement. In fact, inter-governmental climate negotiations have so far failed to even mention the subject of hydrocarbon production, which is indicative of the issue's extremely complex and controversial nature. There is therefore no political agreement between countries on any limitation in hydrocarbon production in order to achieve the objective of the Paris Agreement.

It is somewhat paradoxical to imagine banks acting together to impose policy on sovereign states, in the name of climate change and therefore a certain notion of global justice. All the more so since sovereign states must retain the ability to determine their own policy priorities. While the climate imperative is undoubtedly a top priority, there may be exceptional circumstances in which states decide that the climate priority is temporarily eclipsed by other priorities such as security or national independence. The energy crisis created by the conflict in Ukraine is an example.

Some political players have reacted, in retaliation, against what they perceive to be a real threat. The State of Texas recently passed legislation prohibiting any public organisation in the state from giving a mandate to an asset manager who refuses to invest in oil companies[23]. The rationale is simple: to defend Texas's oil-based economic model against Wall Street's alleged desire to promote the ecological transition .

The dilemma between effectiveness and legitimacy underlines the highly political nature of the economy's structure. It is up to the political authorities to define a timeframe for the transformation of this structure. The European Commission has done so by presenting its Green

19. In contrast, the refusal to finance in order not to be involved with controversial operations (ethical argument) is effective in itself: by refusing to finance an operation of that nature, the bank will not be associated with it.
20. A good example of such a process is the Equator Principle on project financing. For this case, see Amalric, Franck (2005) "The Equator Principles: one step towards sustainability?", CCRS Working Paper 01-05. Zürich: Centre for Corporate Responsibility and Sustainability.
21. International Energy Agency (2021) Net Zero by 2050 A Roadmap for the Global Energy Sector.
22. «Beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway, and no new coal mines or mine extensions are required. The unwavering policy focus on climate change in the net zero pathway results in a sharp decline in fossil fuel demand, meaning that the focus for oil and gas producers switches entirely to output – and emissions reductions – from the operation of existing assets.» (ibid., p. 21)
23. Senate Bill 13, effective September 1, 2021.

Plan for Europe. At the same time, it recognised the need to galvanise all economic stakeholders to achieve this transformation, and thus opened a window for companies to contribute to the ecological transition[24].

In places like Texas, where an ecological transition timeframe has not been set, the banks' efforts to help transform the structure of the economy in that direction may become politically illegitimate. This is the case when banks try to enforce their views by acting in a concerted manner.

24. See for example the following articles: https://www.texastribune.org/2021/05/03/texas-house-fossil-fuel-oil-divest/; https://www.npr.org/2022/03/16/1086764072/texas-and-other-states-want-to-boycott-fossil-fuel-divestment-blackrock-climate?t=1655552241824.

4.

SOME LESSONS

4.1 On the banks' best interests

In joining the *Net Zero Banking Alliance*, banks are indicating that they want to help shift economies towards sustainable models. There therefore appears to be a convergence of interests between banks and society as a whole on the issue of ecological transition.

The banks' clear interest behind this position is threefold. Firstly, they have a preference for the intended destination. The activity of banks is closely bound up with the activity of the non-financial economy in general. Therefore, if the latter is undermined by the further depletion of natural capital, then there will also be a negative impact on markets for banking services. But the destination is still too distant for this kind of consideration to influence the strategies that are put in place today.

A second clear interest of the banks, which is more impactful in the short term, lies in the transition process itself. By generating huge investment demand, this process creates significant growth opportunities for all banks.

Finally, banks need to be mindful of their image if they are to maintain their attractiveness to customers and potential employees, and therefore manage any risks to their reputation at a time when more people are concerned about sustainability issues. Following the saying that attack is the best form of defence, one of the ways a bank can manage these risks is to show that it is contributing to the transition.

4.2 On how banks can contribute

Table 1 on the next page provides a summary of what banks are doing or can do to contribute to the ecological transition.

What emerges is a picture that is out of step with the prevailing opinion: the banks' potentially most significant contribution to the ecological transition lies more in the different actions they take to encourage their customers to embrace the transition than in their core financing business or in responsible banking products.

This result stems in part from our conceptual viewpoint. In a competitive environment, the impact of a bank on social reality does not lie in the loan it grants to a client when a similar loan can be obtained from another bank. Therefore, a bank's contribution to the transition cannot consist of responding in the usual way to customer demand, even if that demand concerns making 'green' investments. Instead, its contribution lies in the special effort it makes, either to meet that demand (for example by creating specific products or taking an additional risk compared to what it would normally accept), or to generate the demand.

In this context, our analysis suggests that the potential contribution of banks lies primarily in this second category (generating demand); and that within this category, it is through stakeholder empowerment and transition advice that banks have the greatest capacity to generate demand, rather than through favourable loan conditions or incentives. **It is therefore primarily through non-banking operations that banks have the potential to contribute to the transition**.

Our analysis also shows the value of the CCET (Contribution of Companies to the Ecological Transition) approach versus the traditional CSR approach, which focuses on how the company treats its stakeholders. While the latter focuses on reducing negative impacts, or meeting stakeholders' demand for due respect, the CCET approach explores the scope of a company's possible contributions to the transition. Initiatives such as raising awareness about possible futures, or developing integrated offers including advice on ecological transition, are incomprehensible from a traditional CSR standpoint.

Finally, the result could be good news for the ecological transition as it suggests that the banks' potential contribution is greater than we might initially imagine. For if banks were only able to contribute through granting preferential loans, their contribution potential would be limited to margin considerations on banking products.

4.3 On the banks' contribution potential

So how do we estimate the banks' contribution potential?

The logical consequence of the above is that the banks' contribution potential lies, above all, in their ability to "get their customers on board". They must then release the financial amounts to be able to 'keep them on the ship'. But there is no point in announcing great ambitions in terms of financing if the bank does not help to generate demand and thus grow the market for loans for the ecological transition.

This 'on-boarding' capacity depends on two key factors: legitimacy - and belief.

Banks are legitimate in terms of "opening up the future" because it is an issue that affects economic and financial risks and because they can draw on scientific analyses of the interactions between the economy and the environment. In contrast, rallying and guiding actors around a particular vision of a desirable future, or providing advice on ecological transition, are actions of a political nature, and it is unsure that banks are perceived as being legitimate to carry them out.

It is up to the banks to acquire this legitimacy. And it is possible that only those that succeed in doing so will still play a key role in the market, as suggested by Pascal Demurger, Managing Director of MAIF, who published a book a few years ago with a portentous title: *L'entreprise du XXIe siècle sera politique ou ne sera plus.* (The company of the 21st century will be political, or it will not be at all.)

The other contributing factor to the banks' "on-boarding" capacity will be their persuasiveness in convincing investors. To some extent, competitive forces will play a beneficial role here. While the "free ride" effect can sometimes hamper the implementation of CCET strategies,

Table 1: The contribution of banks to the ecological transition according to the CCET MATRIX

CCET Framework	Levers	Legitimacy	Business case for banks	Potential social impact (*)
Contribution to raising the level of societal responsibility for sustainability				
Raising awareness	Raising awareness of sustainability risks	High	(+) Decreased sustainability risks	Important: Banks are keen observers of the economy.
Galvanising	Suggesting that all actors must contribute	Low		Low
Guiding	Diagnostics tools	Low	(+) Reputation and indirectly GNP (-) Risk to reputation	Medium: low legitimacy of banks on the subject; but greater impact if linked to legitimate entity
Helping to transform the structure of the economy				
Reducing the direct impact on natural capital	Operational Efficiency	High		Negligeable
Investing in human and physical capital	Integrated offers with advice on ecological transition	Medium	(+) Generates GNP, reduces risks (-) Cost to the Bank of developing and sharing expertise	Important: Effectiveness depends on the ability of banks to generate demand.
	Responsible banking products	High	(+) Générer du PNB. (-) Réduction des marges du fait de conditions de crédit préférentielles.	Low/Medium: Depends on the sensitivity of demand to a marginal reduction in the cost of credit.
	Exclusion from funding	Medium	(+) Réputation. Légitimité pour se présenter comme une entreprise contribuant à la transition. (-) Coût d'opportunité PNB	Low in a competitive environment if this does not lead to the emergence of market regulation.
Exercising cultural influence	Stronger commitment via *SLL*	High	(+) PNB et réputation	Medium: depends on ESG objectives.
	Promotion of "sustainable" savings products	Medium	(+) Commissions sur ces produits	Low: sustainable funds have low impact (controversial topic)

(*) The potential for social impact is measured here by the potential level of contribution to the transition process. We are talking about potential at this stage because there is not enough perspective to estimate this contribution empirically.

in this case, strategies for capturing growth opportunities, by developing integrated offers for example, help generate growth for the whole market, accelerating the transition.

Are we about to witness a process of self-fulfilling prophecies? If banks believe that supporting the transition will grow the market, then they will invest massively to grab a share in it; and since a significant volume of these investments is aimed at creating demand ('on-boarding' customers), they will generate the market growth they had anticipated.

Belief in the future creates the future. This is what John-Maynard Keynes thought, in one of the more well-known passages of his General Theory:

> *Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than mathematical expectations. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits—a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities*[25].

These "animal spirits", or natural enthusiasm, are at the heart of the transition. This enthusiasm must permeate throughout an entire organisation, from top management down to the bank advisor mandated to pass it on to clients in order to "on-board" them. If the contribution to transition begins with the belief in its necessity, it will unfold through the belief in its inevitability. The enthusiasm is fuelled by this belief; then makes it come true.

25. Keynes, John M. (1936). The General Theory of Employment, Interest and Money. London. Macmillan. pp. 161-162.

5.

APPENDIX

Review of commitments undertaken by the major French banks on the ecological transition

La Banque Postale

La Banque Postale claims to be "A bank for the ecological transition" on its website. It "is working to support its customers' commitment to the environment. It offers financing and investment solutions that allow everyone to make their commitments to the ecological transition a reality"[26].

BNPParibas

BNP Paribas has made sustainability one of the three pillars of its 2025 GTS (Growth, Technology, Sustainability) strategic plan[27]. One of the three main strategic directions for accelerating the implementation of its sustainable finance and CSR commitments is to "engage with customers in the transition to a sustainable economy".

BPCE Group

According to its universal registration document, its CSR approach has two main objectives:

- To support the energy, ecological and social transition of communities
- To be a responsible group in its internal and external practices

On the first point, 3 main courses of action:

1. Include climate change and biodiversity conservation into our development strategy
2. Support our customers in the energy, ecological and social transition
3. Support communities in the transition

Crédit Agricole group

With its "Societal Project", announced in 2021, the Crédit Agricole Group has made the following commitments:

To act for the Climate and the transition to a low-carbon economy

1. To achieve carbon neutrality by 2050.
2. To advise and support 100% of our customers in their energy transition.
3. To incorporate extra-financial performance criteria into 100% of our financing for businesses and farmers.

26. https://www.labanquepostale.fr/particulier/solutions-citoyennes/transition-ecologique.html. Accessed July 05, 2022.
27. https://cdn-group.bnpparibas.com/uploads/file/bnp_paribas_plan_strategique_gts_2025.pdf

Crédit Mutuel Arkéa

Crédit Mutuel Arkéa presents its Transitions 2024 strategic plan in the following terms[28] :

“To be the agile financial partner for future transitions is the ambition of our strategic plan for the next four years. We have built this plan with humility and respect for our collaborative values. It is proof of our willingness to translate our Purpose into action. Transitions 2024 is an expression of our deep conviction that value creation is not just financial, and that it is our responsibility to support all our customers and communities in their environmental and societal transition.”

Hélène Bernicot – Managing Director

Société Générale

According to its website:

"Societe Generale believes banks and alliances have a leading role to play in accelerating the pace required to achieve the objectives set out in the Paris Agreement, towards carbon neutrality. We want to contribute to a transition that is both proactive and responsible, by building, along with our customers, a better and sustainable future with responsible and innovative solutions. That is our raison d'être. Sustainable development is at the heart of our strategy and involves all our staff throughout the Group, in each activity, function and location.”

Frédéric Oudéa, CEO of Societe Generale[29].

28. https://www.cm-arkea.com/banque/assurance/credit/upload/docs/application/pdf/2021-04/022819-00_asm_297x2100_pdf_scrollable_transitions_2024_arkea.pdf.
29. https://www.societegenerale.com/fr/responsabilite/transition-ecologique. Accédé le 05 juillet 2022.

Founded in 2008, Square is a strategy and business consulting group that bring together 9 medium-sized firms in France, Belgium and Luxembourg. Adway, Circle, Flow&Co, Forizons, Initio Belgique, Initio Luxembourg, Tallis, Vertuo, Viatys are consulting firms specialized in trade, activity sector or level of intervention.

This organization, unique and specific, favours the closeness, commitment, agility and expertise at the heart of each firm. The complementarity of the firms allows Square to address, with more than 800 consultants, the most complex projects of its clients.

DATA
Square Management develops Data strategies and ensures their operational implementation by taking the lead in Data Management, Data Analysis and Data Science projects. Our expert and pragmatic approach aims to enhance and secure companies' data assets.

DIGITAL
Square Management assists its clients in the development of their digital strategy, the design and implementation of new digital journeys for their clients or their employees, as well as in all internal transformation projects and support for new design methods.

INNOVATION
Square Management supports its clients in the transformation of their innovation dynamics. Our consultants, with their tailor-made approach, help to design, industrialize and govern innovation to ensure the sustainable growth of companies and their transformation into socially and environmentally responsible entities.

MARKETING
Square Management supports its clients across the entire marketing spectrum: strategic marketing, relationship marketing, product marketing, communication, pricing, customer satisfaction. Our expertise, initially focused on the banking and insurance sectors, is now aimed at all B2C industries or services.

PEOPLE & CHANGE
Square Management helps its clients to acquire, integrate and develop their organization's human capital. In order to create greater commitment within teams, our interventions focus primarily on adapting work methods to operational and cultural changes, the effectiveness of human resources departments and skills development.

RISK & FINANCE
Square Management leads the management of financial and non-financial risk control programs, as well as the transformation of the Risk and Finance functions in response to changes in prudential regulations and issues related to data control.

REGULATORY & COMPLIANCE
Square Management advises its clients in the rollout of new regulations, as well as in the optimization and enhancement of control systems. This area of excellence is supported by a community of experts of 130 consultants who, in addition to client assignments, conduct major research and publication work.

CSR & SUSTAINABLE FINANCE
Square Management supports its clients in their shift towards a more responsible model. Our guidance includes the strategic definition of a CSR ambition, the transformation of business models, and compliance projects in both their regulatory and their Data Management and Data Science aspects. Square also advises its clients in human and cultural support projects relating their CSR policy.

SUPPLY-CHAIN
Square Management ensures the operational excellence of logistics, from procurement to the last mile, with differentiating customer journeys. Our experts design omnichannel solutions that implement best practices in information systems, mechanization and robotization.

This new Square Management Focus forms part of Square Research Center's Corporate Contribution to the Ecological Transition (CCET) research programme, and analyses what banks are doing, and can do, to contribute to the ecological transition. The major French banks have made commitments on the issue by joining the Net Zero Banking Alliance. But what concrete contributions can they make? We apply the CCET analysis matrix developed elsewhere to provide answers to this question, based on two main themes: the empowerment of economic actors and the financing of the economy.

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