



## **STRATHMORE BUSINESS SCHOOL**

MASTER OF SCIENCE IN DEVELOPMENT FINANCE

**END OF SEMESTER EXAMINATION**

**MDF 8203: SUSTAINABLE FINANCE FOR DEVELOPMENT**

**Date:** Monday, 18<sup>th</sup> January 2021

**Time:** 3 Hours

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### **Instructions**

1. **Answer Question ONE and ANY OTHER TWO questions**

### **Question 1 (Compulsory) (30 Marks)**

Read the case on Triodos Bank and attempt the following questions:

- a) From the case and our discussions in class, what are the shortcomings of existing sustainability performance frameworks? **(5 marks)**
- b) In your opinion what makes Triodos Bank sustainable? **(5 marks)**
- c) Assume the management team at Triodos Bank has hired you to help them develop a sustainability performance framework. What framework(s) would you propose to effectively measure and communicate Triodos Bank's sustainability performance? **(10 marks)**
- d) What steps would you take to ensure your proposed frameworks are relevant and meaningful to other stakeholders? **(5 marks)**
- e) Why is it essential for Triodos Bank to distinguish between measuring and communicating sustainability performance? How would you propose they go about making this distinction? **(5 marks)**

### **Question 2 (15 Marks)**

- a) "Financial intermediation does not add value to the global economy." Reflecting on the Global Financial Crisis of 2008 and the role played by global financial institutions in the crisis, do you agree with this proposition? Why or why not? **(6 marks)**
- b) Discuss two core obstacles to sustainable banking. Use examples to support your answer. **(4 marks)**
- c) Circular business models such as those used by certain sustainable fashion brands such as LVMH are becoming increasingly mainstream and demonstrate a clear business case. However, financing circular companies is still not a popular option for several banking institutions. Why is this the case? **(5 marks)**

### Question 3 (15 Marks)

- a) The concept of creating shared value (CSV) is defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Reflecting on the class discussion held with guest lecturer Tiekie Barnard-CEO of the Shared Value Africa Initiative, *critique* the concept of CSV. You may use examples to support your answer. **(10 marks)**
- b) “Purpose is a company’s fundamental reason for being. Without a sense of purpose, no company, either public or private can achieve its full potential.”

#### **Required:**

Evaluate the following purpose statements drawn from two random companies. In your opinion, which purpose statement is most clearly articulated? Ensure you comment on the reason for your choice.

- i. Our purpose is to deliver the promise of the digital world by enabling people, businesses and society to innovate and drive positive change. We create business value by earning customers’ trust, minimizing environmental impact and creating social benefit through our products and services.
- ii. We have a clear purpose to help make financial lives better through the power of every connection. We fulfil this purpose through a strategy of responsible growth, which includes a focus on environmental, social and governance leadership.

**(5 marks)**

### Question 4 (15 Marks)

- a) Using suitable examples distinguish between negative screening, impact investing, best in class investing (also known as positive screening) and ESG investing. **(8 marks)**
- b) In your opinion, is the scepticism around the claim that sustainable asset management leads to higher stock returns warranted? Why or why not? **(5 marks)**
- c) Briefly distinguish between the Efficient Market Hypothesis (EMH) and the Adaptive Market Hypothesis (AMH). **(2 marks)**

### Question 5 (15 Marks)

- a) *“It is time to put a price on carbon. To phase out fossil fuel finance and end fossil fuel subsidies. To stop building new coal power plants. It is the time to integrate the goal of carbon neutrality into all economic and fiscal policies and decisions. And to make climate-related financial risk disclosures mandatory.”*-Antonio Guterres

#### **Required**

- i. Describe in detail the various ways global capital markets can integrate ecological and social externalities into the prices of securities. **(6 marks)**

- ii. Antonio Guterres' call to put a price on carbon and to make climate-related financial risk disclosures would fall under which stage of Sustainable Finance i.e. SF 1.0, 2.0 or 3.0? Provide a rationale for your answer. **(3 marks)**
- b) Distinguish between the true value approach and public value. **(2 marks)**
- c) In your opinion, which type of investor has the most influence on the sustainability performance of companies and why? Hedge funds, retail investors, high-frequency traders or pension funds? **(4 marks)**