



STRATHMORE BUSINESS SCHOOL
MASTER OF SCIENCE IN DEVELOPMENT FINANCE
END OF SEMESTER EXAMINATION

MDF 8203: SUSTAINABLE FINANCE FOR DEVELOPMENT

Date: Thursday 8th December 2022

Time: 3 Hours

Instructions

1. This examination contains **FIVE** questions
2. 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? Your answer should be centred on an existing framework for measuring and communicating corporate sustainability performance. **(10 marks)**
- d) What steps would you take to ensure your proposed framework is 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? **(5 marks)**
- b) Discuss two opportunities provided by sustainable banking models. Use local 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 in emerging markets. Why is this the case? Your answer should also

highlight some of the discussion points on the Circular Economy as shared by Prof. Bart van Hoof's guest lecture during the semester. **(6 marks)**

Question 3 (15 marks)

- a) Using suitable examples distinguish between negative screening, ethical investing, best in class investing and ESG investing. **(6 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? **(3 marks)**
- c) The Adaptive Markets Hypothesis (AMH) offers a better framework for long term value creation than EMH. Critically discuss this statement. Your answer should highlight the main assumptions provided under AMH and EMH. **(6 marks)**

Question 4 (15 marks)

- a) Using relevant examples for each, draw distinctions between business materiality, accounting materiality and stock market materiality in the context of measuring and reporting ecological and social externalities linked to organizational activity. **(4 marks)**
- b) In a recent article by the Economist, an argument for limiting ESG reporting to focus purely on emissions reduction is made: *“As our special report this week concludes, although ESG is often well-meaning it is deeply flawed. It risks setting conflicting goals for firms, fleecing savers and distracting from the vital task of tackling climate change. It is an unholy mess that needs to be ruthlessly streamlined.”* Do you agree with this perspective? Why or why not? **(8 marks)**
- c) How do science-based targets align to the Paris Agreement? **(3 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. **(4 marks)**
 - ii. What were the main focal points for climate financing for developing economies discussed during this year's COP 27 in Sharm El-Sheikh? Provide relevant examples to support your answer. **(5 marks)**
- b) Briefly distinguish between the true value approach and public value using an example. **(2 marks)**
- c) In your opinion, which type of investor has the most influence on the ESG performance of companies and why? Hedge funds, retail investors, high-frequency traders or pension funds? **(4 marks)**