



Strathmore
UNIVERSITY

STRATHMORE BUSINESS SCHOOL

MASTER OF SCIENCE IN DEVELOPMENT FINANCE

END-OF-SEMESTER EXAMINATION

MDF 8203: SUSTAINABLE FINANCE FOR DEVELOPMENT

Date: Tuesday 5th December 2023

Time: 3 Hours

Instructions:

- This examination contains **FOUR** questions.
- **Answer Question ONE and any other TWO questions**

Question 1 (Compulsory) (30 marks)

Part A

Read the case study on ‘Sustainable Finance for Small and Medium Sized Enterprises in an Emerging Market (2 Bridges for Economic Growth in Honduras)’ and answer the following questions:

- a) The case mentions three potential avenues of sustainability for 2 Bridges. Identify these avenues and provide an argument for which of the three would be the best alternative. **(4 marks)**
- b) Are there other ways that the goal of creating a bridge between worthy small businesses and the commercial banking systems could be accomplished? **(6 marks)**
- c) Apply this concept to our local context. Provide a brief description of what elements would be the same and what would be different. **(7 marks)**
- d) In your opinion, do you think that the Angel Venture Fund is a viable concept, or are there weaknesses that may not allow it to become sustainable? **(5 marks)**

Part B

- e) Distinguish between best in class investing, negative screening and impact investing. Provide examples to support your answer. **(6 marks)**
- f) Briefly describe Andrew Lo’s Adaptive Markets Hypothesis (AMH) and contrast it with the weak form of the Efficient Markets Hypothesis. **(2 marks)**

Question 2 (15 marks)

- a) Large banks often struggle to implement sustainability into the credit risk assessment processes across the organization. Identify two barriers for implementation and provide a

recommendation on how to overcome the barriers identified. Provide examples to support your answer. **(8 Marks)**

- b) The planetary boundaries of land-system change and climate change are related. A relevant factor within one boundary can be linked to a factor within the other boundary. Provide an example of a positive link (i.e. factors that reinforce each other with a positive impact on the environment) and another example of a negative link (factors that reinforce each other with a negative impact). Your answer should make reference to Kate Raworth's TED Talk on Doughnut Economics. **(7 marks)**

Question 3 (15 marks)

- a) Briefly describe how market failures identified by the Fisherman's dilemma can be rectified. **(4 marks)**
- b) *"However, in analyzing policy documents to assign scores to water sustainability criteria, it was found that their (investors) good intentions did not trickle down to effectuate clear water policy. In many cases, policy is formulated in general, ambiguous, superficial, or even meaningless terms (cf Scholtens (2014)). For example, 11 out of 20 investors state water considerations influence their investment decisions, but without bothering to give any further explanation."*
- i. In reference to excerpt above what form of physical water risks is an insurance company exposed to and how can they transform to financial risks for the company? Your answer should make reference to the TCFD guidelines for climate-related risks. **(6 marks)**
- c) In your opinion, is the skepticism around the claim that sustainable asset management leads to higher stock returns warranted? Why or why not? Use examples to support your answer. **(5 marks)**

Question 4 (15 marks)

- a) Assume you have been hired as a consultant for a local glass manufacturing company to advise on their sustainability strategy for 2023/2024. They have hired you to give specific recommendations on how to identify and report on material ESG information that is central to their strategy. Given the nature of their operations, they will be expected to comply with the new Sustainable Waste and Management Act 2022. The management has also heard about circular business strategies and are keen to know what opportunities they may leverage on. Provide detailed recommendations on the material ESG disclosure items that the company should produce, ways in which they can re-think their manufacturing processes and suggestions on which sustainability reporting frameworks they may use. **(12 marks)**
- b) Briefly define a Collateralised Debt Obligation and a Credit Default Swap and state what role both instruments played during the Financial Crisis of 2008. **(3 marks)**