

SUSTAINABLE FINANCE AND IMPACT INVESTING

International MBA IMBA-EN SEP-2024 S-SMS

Area Finance

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Term: Concentrations

Category: regular

Language: English

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Emma Navarro is a member of the High Corps of Spanish State Economists and Trade Experts. She holds a Law degree from Universidad San Pablo CEU and has completed advanced studies in EU legal and economic subjects at Sorbonne-Paris I University and Complutense University of Madrid.

Presently, Emma serves on the Board of Iberdrola España, a major renewable energy company and a forerunner in the shift towards a low carbon economy. She has also been senior fellow for Climate Finance at the European Climate Foundation, a role that aligns with her commitment to environmental stewardship.

Her professional journey includes her tenure as Vice-President of the European Investment Bank, the largest multinational bank globally by assets. In this role, she was pivotal in shaping the bank's Climate Action Strategy, cementing its status as the EU's Climate Bank with a renewed focus on combating climate change.

Previously, Emma was Chairperson of ICO, Spain's National Promotional Bank and State Financial Agency. During her extensive career in the Spanish public administration, Emma also served as Secretary General for the Treasury and Financial Policy, where she managed banking and financial policy regulation, funding, and debt management. Her board positions at the Bank of Spain, the National Securities Market Commission (CNMV), the FROB (Spanish Executive Resolution Authority), and as Vice-Chairperson of the Governing Committee of the Deposit Guarantee Fund, also reflect her diverse expertise.

Internationally, Emma has represented Spain in various high-level financial forums, including the EU's Economic and Financial Committee (EFC), the Eurogroup Working Group (EGW), and as a deputy representative at the Eurogroup, ECOFIN, and G20 meetings. She was also a Board Member of the European Stability Mechanism (ESM), and a member of the Financial Stability Board (FSB).

Emma also worked at the International Monetary Fund as an adviser to the Executive Board Director for Colombia, Mexico and Spain.

Office Hours

Office hours will be on request. Please contact at:

enavarroa@faculty.ie.edu or using blackboard ultra.
Office Hours: Mondays and Tuesdays: 18h00-19h00.

SUBJECT DESCRIPTION

The goal of this course is to explore the foundations of Sustainable Finance. Students will develop theoretical and practical knowledge and understanding of the main debates around CSR and Sustainable Finance.

Sustainable Finance is one of the most trending topics in Finance today. A fundamental reshaping of finance is taking place to integrate Environmental, Social and Governance issues (the so-called ESG factors) into investment decisions and business strategies. At the same time, there is growing acknowledgment that finance can be a powerful tool to transform our economic and social model towards sustainability.

More and more companies are eager to tackle key sustainability issues like climate change, biodiversity loss, and social inequality using robust business principles. They are aligning with the global Sustainable Development Goals agenda to guide these efforts. A new paradigm has emerged in corporate finance that shifts the traditional shareholder-centric approach focus to consider long-term value creation for all stakeholders.

ESG investments have increased exponentially in the last years, while green and other sustainable products have soared. Investors are more and more scrutinizing companies' efforts to manage sustainability risks and opportunities, which has driven demand for company data on ESG related performance and resulted in a proliferation of competing reporting frameworks and guidelines. In response, International Sustainability Reporting Standards are being now elaborated, while some jurisdictions are also developing or strengthening their mandatory climate or ESG disclosure regulations.

Recognition by financial supervisors, regulators and investors that climate change is a source of financial risk is rapidly transforming sustainable finance from niche to mainstream. A growing number of financial supervisors are now expecting financial institutions to manage climate-related financial risks, and some are also conducting climate stress tests or scenario analysis to test the resilience of banks and the financial system as a whole to those risks. Additionally, the ECB and other central banks are starting to incorporate climate change considerations into their monetary policy frameworks.

The covid-19 pandemic had accelerated the ESG momentum and has triggered debates on the opportunity to rebuild economies placing sustainability and corporate purpose well-entrenched at the core. And while the war in Ukraine and other global developments have brought new dynamics and challenges, they have also reinforced the importance of transitioning to a more sustainable and resilient global economy.

Against this background, developing a critical mass of experts on Sustainable Finance is key for the continued expansion and promotion of this increasingly important approach to finance.

LEARNING OBJECTIVES

The main objectives of this course are the following:

- To gain a better understanding of the transformations that the financial sector is currently undergoing as a result of the challenges linked to sustainability.
- Overview of the key international agreements and frameworks supporting sustainable finance
- Reflect on the challenges and opportunities posed by climate change and the transition to a more sustainable economy
- Learn to identify and understand various ESG factors, with a focus on recognizing materiality to determine the most relevant factors for a company.
- Gain insight into the challenges of measuring ESG performance, including the complexities and nuances of ESG ratings.
- Understand how the ESG reporting landscape is evolving, including the most widely used voluntary reporting frameworks, how mandatory disclosure requirements are being adopted in many jurisdictions for companies and investors, and current efforts to achieve international standardization.
- Assess how ESG factors can affect the value creation and risk of a company and the performance of an investment.
- Recognize the different approaches investors use to integrate ESG considerations into their investment decisions.
- Learn how sustainable taxonomies are adopted by jurisdictions to promote and increase sustainable investments. Understand this tool for classifying economic activities based on their sustainability, with a focus on the EU Sustainable Taxonomy.
- Familiarize with different sustainable financial products, especially green bonds and other thematic bonds.
- Understand how financial regulations are adapting to include climate-related financial risks, focusing on areas such as risk assessment and management, climate stress testing or capital requirements.
- Be cognizant of the role of MDBs in promoting sustainability and mobilizing finance towards sustainable projects.

TEACHING METHODOLOGY

IE University teaching method is defined by its collaborative, active, and applied nature. Students actively participate in the whole process to build their knowledge and sharpen their skills. Professor's main role is to lead and guide students to achieve the learning objectives of the course. This is done by engaging in a diverse range of teaching techniques and different types of learning activities such as the following:

Learning Activity	Weighting
Lectures	20.0 %
Discussions	20.0 %
Exercises in class, Asynchronous sessions, Field Work	15.0 %
Group work	20.0 %
Individual studying	25.0 %
TOTAL	100.0 %

AI POLICY

Specific use cases of GenAI are encouraged

Generative artificial intelligence (GenAI) tools may be used in this course for research and ideation, with appropriate acknowledgement. GenAI may not be used for individual and group assignments and exams. If a student is found to have used AI-generated content inappropriately, it will be considered academic misconduct, and the student might fail the respective assignment or the course.

If you are in doubt as to whether you are using GenAI tools appropriately in this course, I encourage you to discuss your situation with me.

Below, a suggested format to acknowledge the use of generative AI tools. Please note that acknowledging AI will not impact your grade.

I acknowledge the use of [AI systems link] to [specify how you used generative AI]. The prompts used include [list of prompts]. The output of these prompts was used to [explain how you used the outputs in your work]

If AI was permitted to use in your assignment, but you have chosen not to include any AI generated content, the following disclosure is recommended:

No content generated by AI technologies has been used in this assignment.

PROGRAM

SESSION 1 (LIVE IN-PERSON)

Sustainability Topics:

- Economic Development

INTRODUCTION TO SUSTAINABLE FINANCE.

1. Introduction to the course.
2. What is Sustainable Finance? Why it matters? Sustainability challenges today and the role of the financial sector.
3. The role of the UN. The Sustainable Development Goals. Other international frameworks promoting sustainable finance. The Principles of Responsible Investment.
4. Context and trends. Understanding the evolution and growth of Sustainable Finance.
5. Challenges and Opportunities for Sustainable Finance.
6. The EU Sustainable Finance Agenda.

Article: What is sustainable finance? (The Economist, Apr 17th 2018) (CED) (Optional)

Article: What is sustainable finance and how it is changing the world (World Economic Forum, Jan 20, 2022) (Optional)

Article: Overview of Sustainable Finance (European Commission) (Optional)

SESSION 2 (LIVE IN-PERSON)

Sustainability Topics:

- Environment
- Governance
- Social Challenge
- Economic Development

THE ROLE OF BUSSINESS IN SOCIETY. BALANCING FIDUCIARY DUTIES AND STAKEHOLDER EXPECTATIONS.

1. From corporate social responsibility to corporate sustainability.

2. What is the purpose of a corporation? From the shareholders primacy norm to the Stakeholders Value Approach.
3. A new concept of fiduciary duty?
4. Sustainable corporate strategy and leadership. The role of Corporate Boards in driving sustainability.
5. A responsible business conduct. The OECD' Guidelines for Multinational Entreprises and the EU's Corporate Due Diligence Directive (CDDD).
6. The ESG backlash. Overview and Impact.
7. In-class debate: "Can fiduciary duty coexist with stakeholder capitalism?". Discussion on the implications of the ESG backlash for sustainable finance.

Article: Business Roundtable Redefines the Purpose of a Corporation to Promote An Economy That Serves All Americans (The Business Roundtable, AUG 19, 2019) (Optional)

Article: C.E.O.s Are Qualified to Make Profits, Not Lead Society (The New York Times, July 26, 2020) (CED)

Article: Creating shared Value (HBS R1101C-PDF-ENG)

Article: The ESG backlash in the US: What implications for corporations and investors?

SESSION 3 (LIVE IN-PERSON)

Sustainability Topics:

- Environment
- Governance
- Social Challenge
- Economic Development

CLIMATE CHANGE AS A DRIVER OF SUSTAINABLE FINANCE.

1. Climate change as a key driver of Sustainable Finance.
2. Climate mitigation vs. climate adaptation.
3. The Paris Climate Agreement and progress in climate change conferences. Recent developments.
4. Climate finance. Financing gaps and the loss and damage debate.
5. Carbon pricing. Why? Modalities.
6. Voluntary carbon markets.
7. The concept of climate neutrality. Climate pledges and transition planning. .
8. The concept of a Just Transition.
9. Green Finance vs. Transition Finance.

Article: What Every Leader Needs to Know About Carbon Credits (HBS H07YB3-PDF-ENG) (Optional)

Article: Climate Change in 2020: Implications for Business (HBS 320087-PDF-ENG) (Optional)

Article: What is carbon pricing? (The World Bank Group) (Optional)

Article: Key Aspects of the Paris Agreement (United Nations) (Optional)

SESSION 4 (LIVE IN-PERSON)

Sustainability Topics:

- Environment
- Economic Development

INTRODUCTION TO THE ESG ECOSYSTEM. THE ENVIRONMENTAL FACTORS OF ESG.

1. Introduction to the ESG ecosystem. Understanding ESG ratings and indices.
2. What ESG factors should be looked at? The concept of materiality.
3. The Environmental factors. The carbon footprint. Scope 1, scope 2 and scope 3 emissions. Financed emissions.
4. Measuring the carbon footprint of a portfolio. Portfolio alignment with climate goals.
5. What are Science-based targets? What is a credible transition plan?
6. How green is a company? Case study: evaluate the environmental disclosures of a company.

Article: It's Time to Unbundle ESG(Optional)

Article: Net-zero: the risks and benefits for companies pledging to save the climate(Optional)

Working Paper: The road to carbon neutrality(Optional)

SESSION 5 (LIVE IN-PERSON)

ESG FACTORS AND MEASUREMENT (2). THE SOCIAL AND GOVERNANCE DIMENSION.

1. Diving into the social factors of ESG. Examples.
2. Good governance as an overriding principle for ESG.
3. Practical application: Analyzing a company's reporting to evaluate the quality and transparency of its social and governance disclosures.
4. ESG Ratings continuation. Challenges and controversies. Case study: The Tesla paradox.
5. The EU's ESG rating regulation.

Article: ESG Ratings. Whose interests do they serve? (Financial Times, Oct.3 2023) (CED)

Article: What is the point of ESG ratings? (Financial Times, January 26 2024) (CED)

SESSION 6 (LIVE IN-PERSON)

ESG REPORTING LANDSCAPE. Part 1.

1. Why sustainability disclosures are important?
2. The evolution of the ESG reporting landscape. From voluntary standards to the rise of mandatory disclosure requirements.
3. Determining material factors. A materiality assessment as the starting point for meaningful disclosures.
4. Audit and assurance of sustainability information.
5. The Task Force for Climate-related Financial Disclosures (TCFD). Overview and influence on emerging regulatory frameworks.
6. Towards Global Sustainability and Climate reporting standards. The International Sustainability Standards Board (ISSB).
7. Annex: Emerging focus: Nature-related disclosures. The Task-Force for Nature-related Financial Disclosures (TNFD).

Article: What is the TNFD and how does it fit into climate reporting (Manifest Climate, March 20,

2023)

SESSION 7 (LIVE IN-PERSON)

ESG REPORTING LANDSCAPE. PART 2.

1. Towards enhanced regulatory sustainability disclosure requirements.
2. The Non-Financial Reporting Regulation.
3. The Corporate Sustainability Reporting Directive. Main requirements.
4. The double materiality assessment.
5. The European Sustainability Reporting Standards.
6. Practical implementation. A class discussion on a company's sustainability disclosures.
7. Other disclosure requirements in Europe.

Working Paper: Navigating the ESG landscape: Comparison of the "Big Three" Disclosure Proposals" (PWC) (Optional)

Working Paper: Your Guide to CSRD and ESRS(Optional)

SESSION 8 (LIVE IN-PERSON)

Sustainability Topics:

- Environment

GREENING THE FINANCIAL SYSTEM

1. What are climate-related financial risks? Physical risk and Transition Risks.
2. Stranded Assets.
3. Measuring and managing climate-related financial risks.
4. The role of the Central Banks in addressing climate change. The Network for Greening the Financial System.
5. Greening Monetary Policy
6. Class Discussion on Climate Risk.

Article: Breaking the Tragedy of the Horizon (BIS central bankers' speeches, 29 September 2015)

Article: Letter to CEOs: A Fundamental Reshaping of Finance (BlackRock)

Article: The major central banks and the fight against climate change. Assessing the latest policy initiatives (Funcas, jan 2024)

Article: Climate change and Financial risks

SESSION 9 (LIVE IN-PERSON)

WHAT IS REALLY IS A SUSTAINABLE INVESTMENT? ADDRESSING "GREENWASHING"

1. Understanding greenwashing and its implications for sustainable investing. How to address greenwashing?
2. Tackling greenwashing in the financial sector: Enhanced sustainability disclosure requirements for investors.
3. The Sustainable Finance Disclosure Regulation. Overview and key requirements.
4. Sustainable Taxonomies. Defining sustainable activities.

5. What is the point of a green taxonomy? A common language for sustainability.
6. The EU Taxonomy. How it works? Objectives, structure and practical applications. The Taxonomy alignment reporting requirements.
7. Debating the merits and challenges of a social taxonomy.

Other / Complementary Documentation: What is the EU taxonomy and how it will work in practice (European Commission)

Article: Green Taxonomies Around the World: Where Do We Stand? (Eco: Fact, November 1, 2022)

Article: The current state of taxonomy alignment

SESSION 10 (LIVE IN-PERSON)

INTEGRATING ESG FACTORS INTO INVESTMENT DECISIONS. ESG INVESTMENT STRATEGIES.

1. Why integrate ESG into investment decisions?
2. Core Investment Strategies for Equity Investments.
 - a. Exclusions
 - b. Best-in-Class
 - c. ESG integration
 - d. ESG engagement and active ownership. Examples.
 - e. Impact Investment
 - f. Thematic Investment
3. Other ESG Investment Strategies
4. Class discussion: Exclusions vs Divestment.

Working Paper: Esg Integration in listed equity: a technical guide

Working Paper: Introductory Guide to Responsible Investment: Stewardship

Working Paper: An introductory Guide to Responsible Investment: Screening and Exclusions

SESSION 11 (LIVE IN-PERSON)

Sustainability Topics:

- Environment
- Governance
- Social Challenge
- Economic Development

ESG: VALUE CREATION AND FINANCIAL PERFORMANCE.

1. Understanding how ESG factors influence the value creation and financial performance. Examples.
2. Evidence on ESG corporate and investment performance. "Doing well by doing good"?

Article: Five ways ESG creates value (McKinsey Quarterly, November 2019) (CED) (Optional)

Article: Sounding good or Doing good? A Skeptical Look at ESG (Musings on Markets, September 21, 2020)

Article: The Secret Diary of a 'Sustainable Investor' (Medium, August 2021)

SESSION 12 (LIVE IN-PERSON)

SUSTAINABLE FINANCE BY ASSET CLASSES

1. ESG funds and SRI funds. ESG Passive Investments.
2. Green Bonds and the Green Bond Principles. The EU Green Bond Standard.
3. Other Thematic Bonds.
4. Green Loans and Green Loan Principles.
5. Other Green Products.
6. PPAs as a product to support the energy transition.

Article: What is the point of green bonds? (The Economist) (CED)

Multimedia Material: Celebrating 10 years of the Green Bond Principles. (ICMA)

SESSION 13 (LIVE IN-PERSON)

Sustainability Topics:

- Environment
- Social Challenge
- Economic Development

MOBILIZING CAPITAL TOWARDS SUSTAINABLE INVESTMENTS.

1. The role of the public sector. Green Public Investment Programs. Green Budgeting Practices.
2. The role of Multilateral Development Banks. Leveraging private sector investment. What is Blended Finance? Examples
3. MDB's efforts to aligning operations with the Paris agreement.
4. Reforming MDBs to provide global public goods.

Article: MDBs Need Major Reforms, Not Just More Funding, to Address Climate and Development Finance Challenges (World Resource Institute)

SESSION 14 (LIVE IN-PERSON)

GROUP PROJECT PRESENTATION

Students will work in teams of 5-8 people to study the risks and opportunities arising from ESG factors for a particular company. The group assessment should include how ESG factors affect the business model and the financial position of the company and a strategic plan to assess those risks and harness the opportunities.

SESSION 15 (LIVE IN-PERSON)

Wrap up Session and Final Exam.

EVALUATION CRITERIA

The evaluation method will be multifaceted and based on the following components:

- Final Exams (40%): during the course, a few quizzes will be administered to test students understanding of course content and discussions held in class.
- Group Presentation (30%): students will work in groups to assess the ESG challenges and opportunities facing a specific company. This will allow to evaluate their ability to apply the knowledge to real-world cases and to conduct in-depth research. It will also enable to assess their ability to work collaboratively and communicate effectively, essential skills for professional environments.
- Class participation and engagement will also be considered (30%).During the course, students will need to complete a few assignments to deepen their understanding of some key topics and assess their ability to critically analyse information and present conclusions. They will be also valuated based on the quality of their contribution to the class discussion and the ability to move the discussion forward and improve the learning experience of the class.

criteria	percentage	Learning Objectives	Comments
Group Presentation	30 %		
Class Participation	30 %		
Final Exam	40 %		

FAILING GRADE AND REASSESSMENT

When students receive a Fail in a course, they have the opportunity to present themselves for reassessment in order to earn the necessary credits toward graduation.

The reassessment of students should be scheduled between 5 and 10 working days after the review session takes place.

Grades for the reassessment are limited to a Low Pass and Fail.

Both, the initial Fail as well as the grade of the reassessment remain on the transcript. For the purpose of calculating the GPA however, only the grade of the reassessment is to be considered. Students receiving a failing grade in the reassessment of a course will not be able to continue in the program.

BIBLIOGRAPHY

Recommended

- Dirk Schoenmaker and Willem Schramade. (2019). *Principles of sustainable finance*. Oxford University Press. ISBN 978019882660 (Digital)

- Nuno Fernandes. (2023). *Climate Finance*. Finance for Executives. ISBN 9789899885431 (Digital)

BEHAVIOR RULES

Please, check the University's Code of Conduct [here](#). The Program Director may provide further indications.

ATTENDANCE POLICY

Please, check the University's Attendance Policy [here](#). The Program Director may provide further indications.

ETHICAL POLICY

Please, check the University's Ethics Code [here](#). The Program Director may provide further indications.