



Contemporary Issues in Finance - Lecture 5

Lesson Title: Sustainable
Finance and ESG Investing

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Course Overview

This lecture introduces postgraduate students to contemporary issues in finance with a focus on Sustainable Finance and ESG (Environmental, Social, and Governance) investing. The session explores the conceptual foundations of sustainable finance, historical evolution, ESG integration strategies, empirical evidence on financial performance, regulatory frameworks, and challenges such as greenwashing and data inconsistencies. The lecture also highlights innovations such as AI in ESG investing and examines implications for developing markets, with particular emphasis on Africa.

Course Objectives

By the end of the session, students will be able to:

1. Understand the role of finance in addressing sustainability challenges
2. Examine the evolution and conceptual frameworks of sustainable finance.
3. Identify and evaluate different ESG integration strategies.
4. Analyze empirical evidence between ESG performance and financial returns.
5. Assess the regulatory, political, and ethical debates surrounding ESG investing.
6. Explore innovations and future directions in sustainable finance.
7. Contextualize sustainable finance within developing markets.

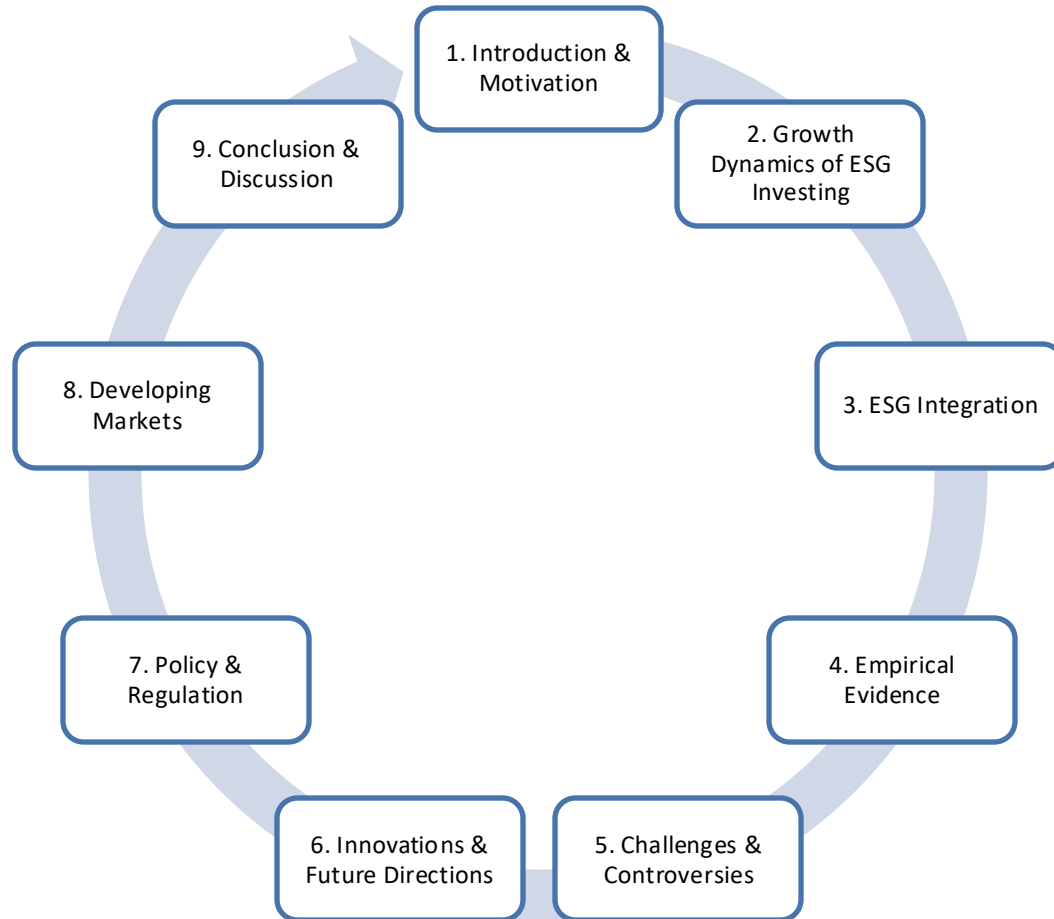


Learning outcomes

After completing this lecture, Learners should be able to:

1. Define sustainable finance and ESG investing
2. Analyze ESG integration approaches (screening, thematic, impact, engagement, bonds) and assess their effectiveness.
3. Evaluate empirical studies on ESG-financial performance linkages with a critical perspective on methodology.
4. Identify and critique major challenges in ESG investing, including greenwashing, data limitations, and politicization.
5. Discuss and apply international frameworks (e.g., TCFD, SFDR, ISSB) in real-world financial decision-making.
6. Apply theoretical and practical insights of ESG investing to emerging markets and propose solutions for local contexts.
7. Engage in informed debate on the future of sustainable finance and its role in global capital markets.

Outline



Introduction

Why Sustainable Finance Matters:

- Climate crisis, social inequality, risks and opportunities
- Investor & stakeholder pressure
- Financial materiality vs ethical motives



Definitions

Key Terms:

- Sustainable Finance
- ESG Investing
- Impact Investing
- Green Bonds
- Responsible Investing



Growth Dynamics of ESG Investing

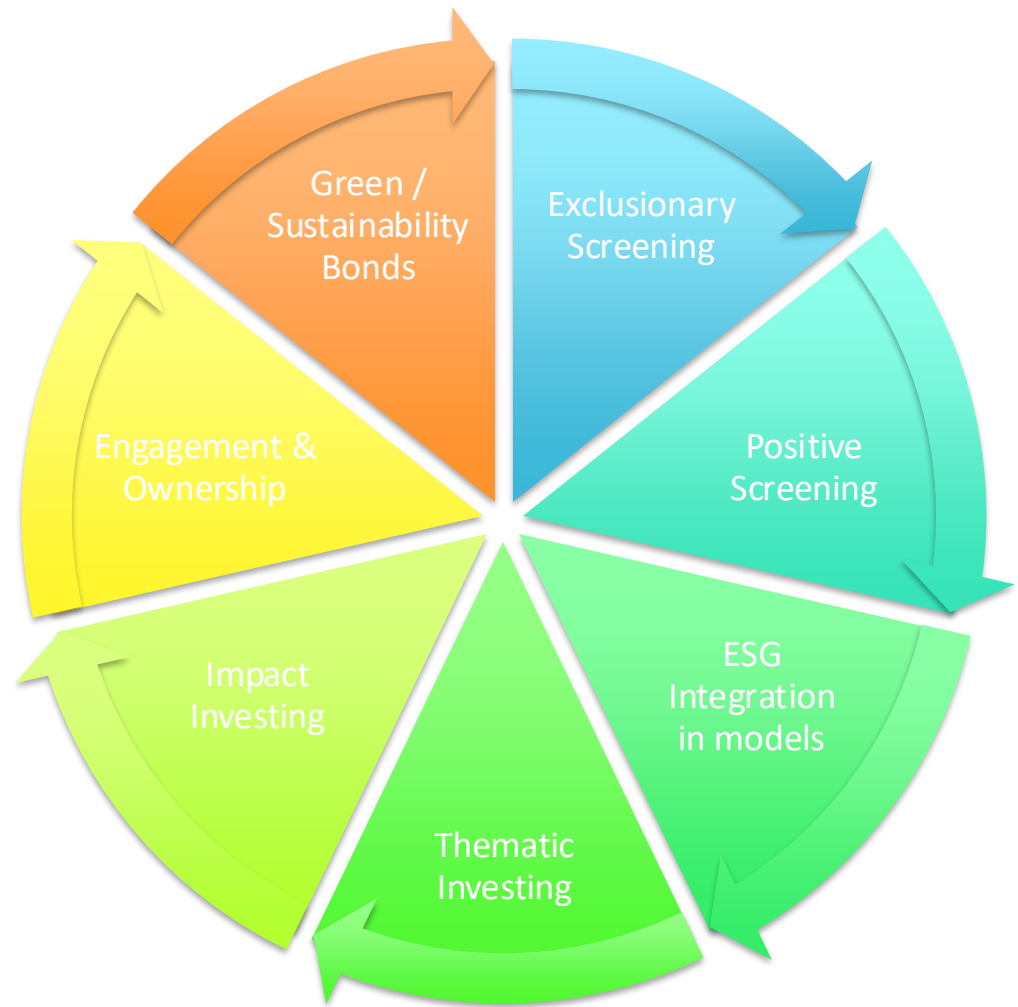


Conceptual Frameworks

Different approaches:

- Risk-based integration
- Positive / Negative screening
- Engagement & activism
- Impact orientation

ESG Integration Strategies



Exclusionary Screening

Remove harmful sectors (tobacco, weapons, coal)

Pros: Ethical clarity

Cons: Diversification loss

Positive Screening

- Best-in-class selection
- Overweight high ESG performers
- Pros: supports leaders
- Cons: rating divergence issues



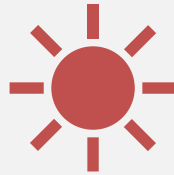
ESG in Models

Integrating ESG in valuation:

- Credit risk adjustments
- Cost of capital shifts
- Scenario analysis



Thematic & Impact Investing



Focus on themes
(renewables,
gender equity)



Impact investing:
measurable
outcomes



Often blended
returns (financial
and impact)

Engagement & Ownership

Investor activism:

- Proxy voting
- Shareholder dialogue
- Push for sustainability improvements

Green Bonds

Debt instruments tied to sustainability goals

Types:

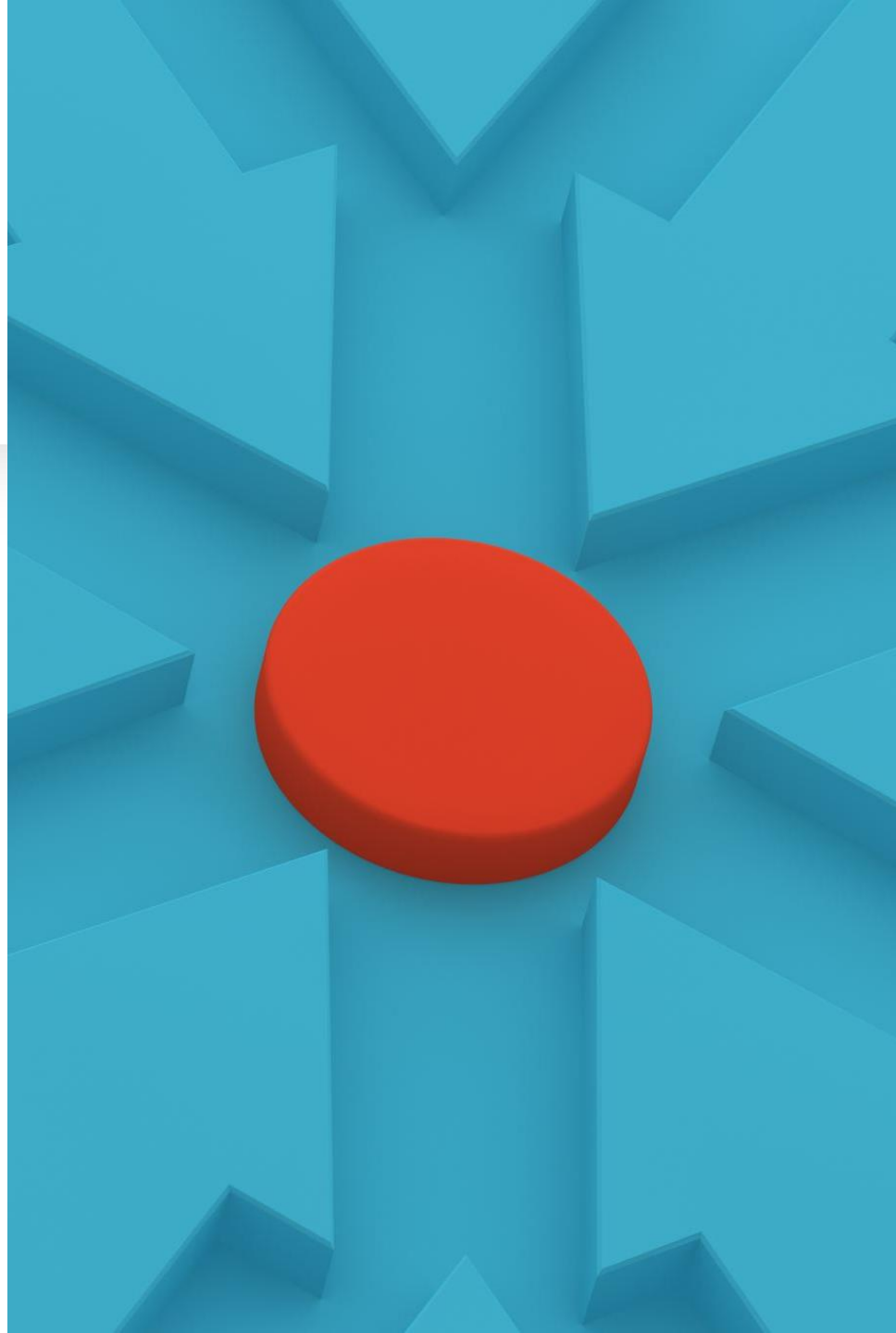
- Green bonds
- Transition bonds
- Sustainability-linked loans



Empirical Evidence

Does ESG enhance returns?

- studies: neutral to positive effect
- Variation by region, method, time horizon



Recent Findings

New studies (2025):

- Weak link between ESG ratings & returns
- Positive role in debt financing
- ESG improves national sustainability performance



Challenges

- Greenwashing
- Data quality & ratings divergence
- Political polarization
- Fiduciary duty issues
- Tracking error, liquidity
- Stranded assets risk



Greenwashing

- Mislabeling ESG products
- Cross washing: 'visible green' but unsustainable core
- Undermines trust & markets



Innovations



AI & ALTERNATIVE
DATA



DYNAMIC ESG
MODELS



TRANSITION
FINANCE



BLENDED FINANCE
IN EM



STANDARDIZATION
(ISSB, SFDR)



IMPACT
MEASUREMENT



Question:

How can we leverage
Artificial Intelligence
for ESG?

Artificial Intelligence and Data

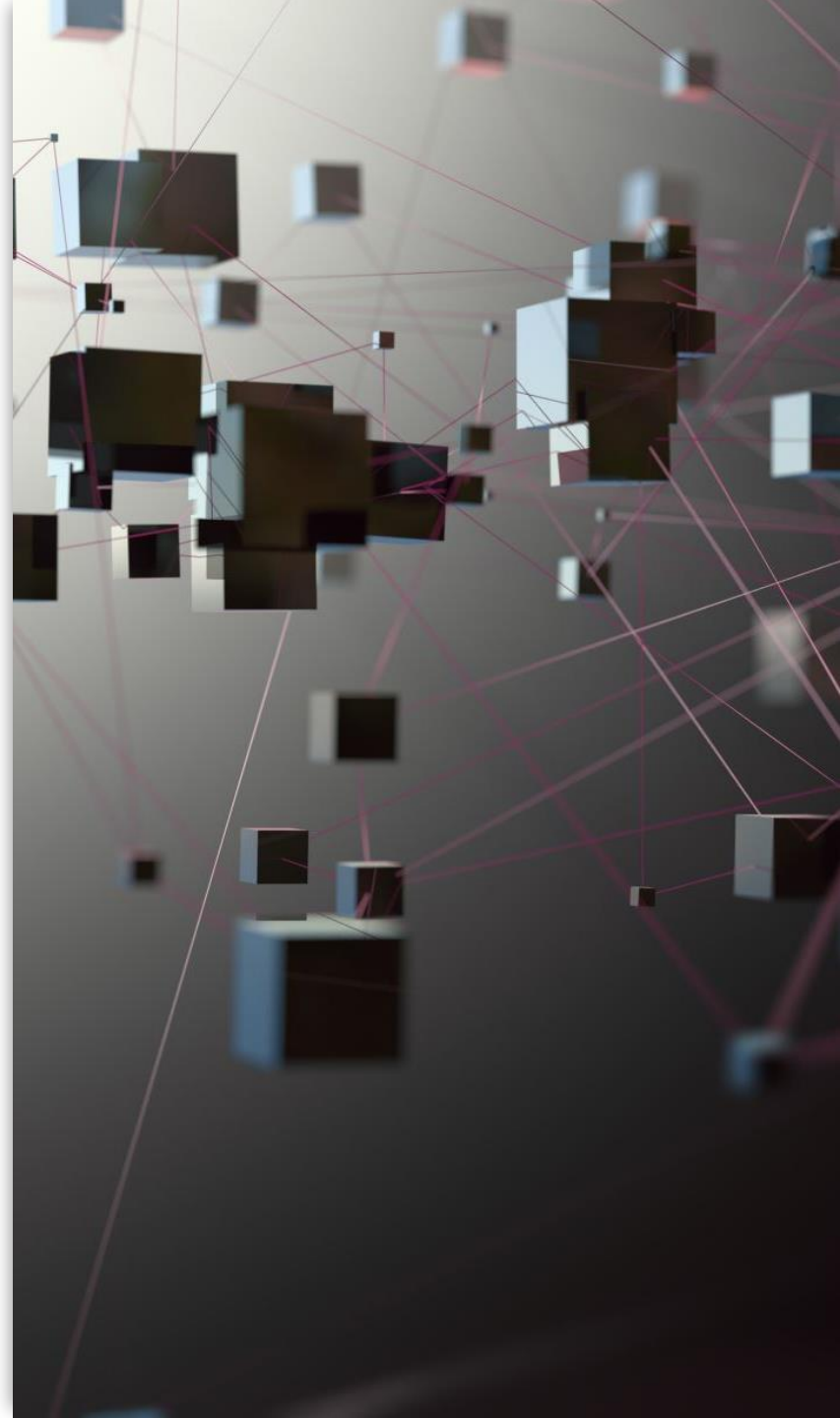
AI & Machine Learning for ESG – Key Applications

- Data collection & monitoring
- ESG scoring & risk analysis
- Portfolio optimization.
- Active ownership support.
- Challenges.



CHALLENGES USE OF AI IN ESG

- Data quality
- Transparency
- Algorithmic bias



Policy & Regulation

Frameworks:

- TCFD, CSRD, SFDR
- EU Taxonomy
- SEC rules
- Carbon pricing, subsidies
- International coordination



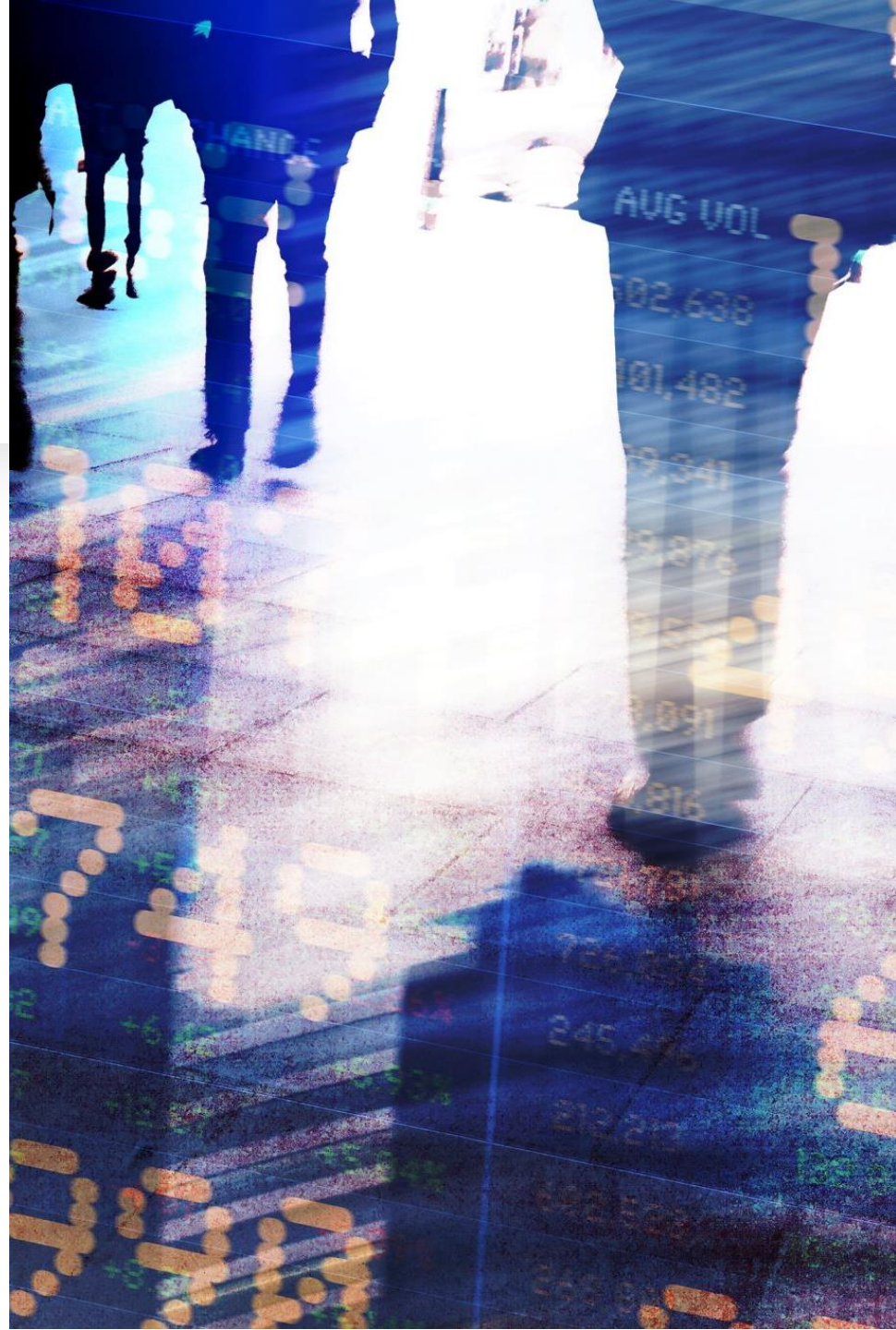
Developing Markets

Challenges:

- Data scarcity
- Market risks
- Weak enforcement

Opportunities:

- Leapfrogging with green tech
- Blended finance
- Localized ESG metrics



Conclusion

Key Takeaways:

- ESG now mainstream, but evolving
- Compatible with finance if material
- Big challenges: data, greenwashing, politics
- Innovations + regulation = way forward



Discussion

Questions:

- Is ESG real transformation or marketing?
- Barriers in your country?



References

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- Ran Xiao, Jiaqi Deng, Yuting Zhou, & Meng Chen. (2023). Analyzing Contemporary Trends in Sustainable Finance and ESG Investment. *Law and Economy*, 2(11), 44–52.
- Shah, D. (2024). Sustainable finance and ESG investing. *International Journal for Research in Applied Science & Engineering Technology (IJRASET)*, 12(2), 412–417.

(PowerPoint presentation created using Microsoft 365)

Thank you

