

A Sustainable Banking Network (SBN)
Flagship Report
Addendum to SBN Global Progress Report

October 2019

Country Progress Report

Kenya



Sustainable
Banking
Network



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1. Country progress summary – Kenya¹



SBN Member: [Kenya Bankers Association \(KBA\)](#) (member since 2015)

SBN Working Group: Measurement Working Group, Green Bond Working Group, IDA Task Force

Key policy documents:

- ☐ Kenya Sustainable Finance Principles and Guidelines (KBA, 2015)
- ☐ National Policy on Climate Finance (National Treasury, 2016)
- ☐ Listing Rules (Nairobi Stock Exchange - NSE, 2018)
- ☐ Kenya Green Bond Guidelines (NSE et al., 2019)
- ☐ Sustainable Finance Initiative Voluntary Reporting Template (KBA, 2019)

Key milestones since 2018 SBN Report:

- ☐ Kenya has progressed from “Developing” to “Advancing” under the “Implementation” stage, as indicated in the “Progression Matrix” below.
- ☐ NSE issued the Listing Rules, focusing on green finance (2018).
- ☐ NSE, together with other partners, jointly released the Kenya Green Bond Guidelines as part of the Kenya Green Bond Programme in 2019.
- ☐ The issuance of Kenya's first green bond, Acorn, a property developer, raised USD 42mn for affordable green student housing in 2019.
- ☐ Kenya Parliament approved tax incentives for green bonds issuance in 2019.
- ☐ KBA issued the Sustainable Finance Initiative (SFI) Voluntary Reporting Template and the voluntary reporting of the implementation of the Sustainable Finance Principles and Guidelines in 2019.
- ☐ Kenya moved up on the Progression Matrix within the Implementation Stage from the Developing Sub-Stage to the Advancing Sub-Stage.

Ambitions for next phase: Kenya’s Sustainable Finance Initiative (SFI) plans to provide FIs with more resources to help them implement the Sustainable Finance Principles.

SBN and IFC role: IFC has provided capacity building to support KBA implement the Principles. Through IFC/SBN, KBA has shared its experience with other SBN members and benefited from the collective SBN experiences.

Note:

1. This Country Report is last updated in October 2019, and thus some of the update has not been reflected in the SBN 2019 Global Progress Report, the cut-off date of which is in June 2019. The regional average and SBN average are as of June 2019.

Figure 1: SBN Progression Matrix with Assessment Results²

Assessment based on progress up to and as of June 2019³

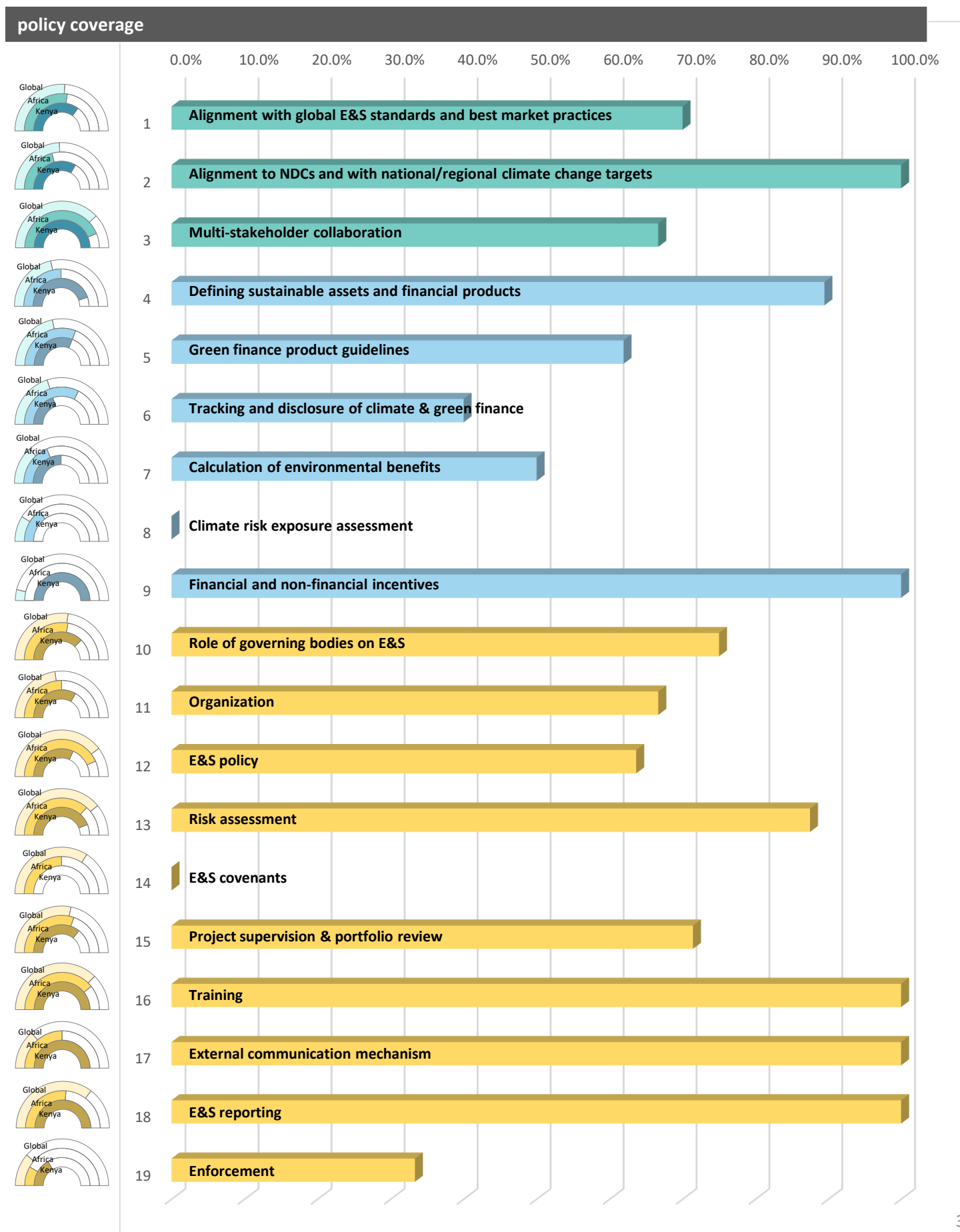


Note:

2. Please refer to the SBN Global Progress Report for an explanation of the Progression Matrix.

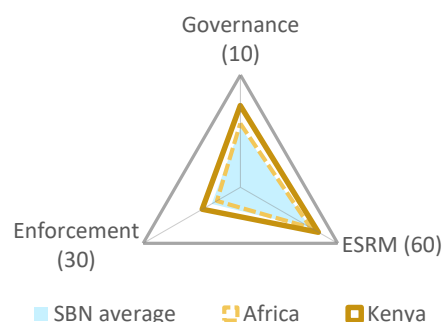
3. Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this report.

2. Overview of policy coverage by indicators [updated]



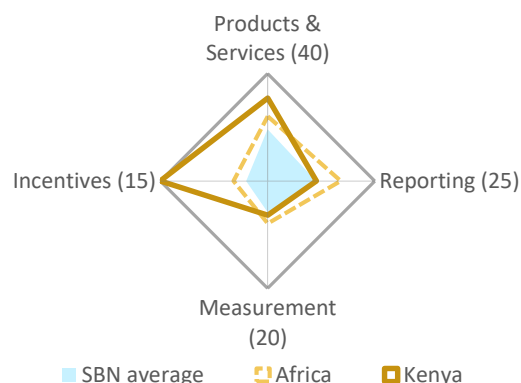
3. Policy coverage developed

Pillar I: Strategic Alignment



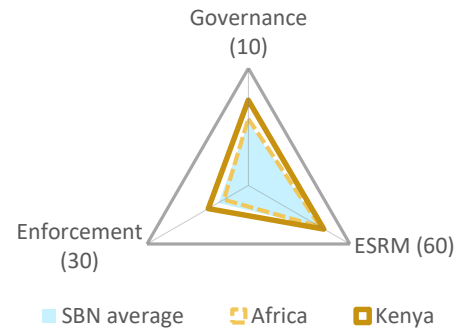
Indicator	Policy requirement	Reference
Alignment with global E&S standards and best market practices		
Indicator 1	The Guiding Principles provide short descriptions of key international standards such as the Global Compact, the Equator Principles and the Global Reporting Initiative.	Kenya Sustainable Finance Principles and Guidelines (Kenya Bankers Association, 2015) – page 16,17 and 18; National Policy on Climate Finance – (National Treasury, 2016) - page iv §2 and vi §2]
Alignment to NDCs and with national/regional climate change targets		
Indicator 2	<p>The National Policy on Climate Finance issued by the National Treasury in 2016 sets out Kenya’s financial response to climate change, including its commitments on emissions</p> <p>The SFI details risks related to climate change in the training provided to the FIs and external stakeholders.</p>	<p>Kenya Sustainable Finance Principles and Guidelines (Kenya Bankers Association, 2015) - page 9; (3) - page 6</p> <p>Kenya Green Bond Guidelines Background Document (Kenya Green Bonds Programme, 2019)</p>
Multi-stakeholder collaboration		
Indicator 3	<p>The framework involves inter-agency collaboration between financial supervisors/regulators, industry association and FIs. This collaboration also includes other public agencies and representatives of civil society.</p> <p>The Green Bonds Programme has partnered with diverse stakeholders (industry associations, non-governmental organizations).</p>	<p>Kenya Sustainable Finance Principles and Guidelines – Kenya Bankers Association (2015) - page 14</p> <p>Kenya Green Bond Guidelines Background Document (Kenya Green Bonds Programme, 2019)</p>

Pillar II: Climate and Green Finance



Indicator	Policy requirement	Reference
Products and services		
Indicator 4, 5	<p><u>Defining sustainable assets and financial products</u></p> <p>The first draft of the Green Bond Guidelines, issued jointly by KBA and the NSE with support from the IFC and other international partners, provides examples of green assets. These are based largely on the Climate Bonds Initiative taxonomy. The Guidelines also provide definitions/examples of sustainable assets.</p> <p><u>Green finance product guidelines</u></p> <p>The NSE has published new Listing Rules for Green Instruments stating the issuance obligations for products, such as independent verification. These follow guidelines such as the Green Bond Principles, or Kenya's National Policy on Climate Change</p>	<p>Kenya Green Bond Guidelines Background Document (Kenya Green Bonds Programme, 2019) – page 7, 8, 12; National Policy on Climate Finance – National Treasury (2016) - 18 ("scope for climate finance policy in Kenya and target sectors")</p> <p>Listing Rules (Nairobi Stock Exchange, 2018) - page 8 (Green Guidelines and Standards)</p>
Climate and green investment reporting		
Indicator 6	The final Green Bond Guidelines ask green bond issuers to disclose the projects and assets to which the proceeds have been allocated.	Kenya Green Bond Guidelines Background Document (Kenya Green Bonds Programme, 2019) - p11 (Part 4., §1) & page 52 (Part VI, 1.b)
Measurement		
Indicator 7, 8	<p><u>Calculation of environmental benefits</u></p> <p>The Green Bond Guidelines provide examples of impact indicators, and it asks FIs to calculate environment benefits of their investments.</p>	Kenya Green Bond Guidelines Background Document (Kenya Green Bonds Programme, 2019) - page 11 (Part 4., §2)
Incentives		
Indicator 9	Kenya Parliament approved tax incentives for green bonds issuance.	House on the Finance Bill 2019

Pillar III: ESG Integration



Indicator	Policy requirement	Reference
Governance of E&S		
Indicator 10, 11	<p><u>Role of governing bodies</u></p> <p>The Principles also state the Board’s risk committee should conduct a review of E&S risks. The Guiding Principles state that management should dedicate an individual to manage and mitigate E&S risks, and that this person’s responsibilities should cut across departments. It also requires FI operational bodies to report to the governing bodies on implementation of the E&S strategy.</p> <p><u>Organization</u></p> <p>The Principles ask FIs to consider the SFI Principles and Procedures when reviewing the “job profiles, roles and responsibilities” in key departments, including credit risk and compliance. The Principles define roles and responsibilities, as well as highlight the roles of front officers and second lines of defense.</p>	<p>Kenya Sustainable Finance Principles and Guidelines (Kenya Bankers Association, 2015) – Principle 3: page 32 (Risk Policies)</p> <p>Kenya Sustainable Finance Principles and Guidelines (Kenya Bankers Association, 2015) – Principle 3: page 29 (§1) & - Principle 4: page 30 (§2) and 32 (risk policies)</p> <p>Kenya Sustainable Finance Principles and Guidelines (Kenya Bankers Association, 2015) – HR policies page 32, §2 & Principles 3: page 29 (§1)</p>
E&S risk management		
Indicator 12 - 17	<p><u>E&S policy</u></p> <p>The Principles ask FIs to formalize an E&S or ESG policy and encourages to go beyond E&S requirements from local laws and regulations.</p> <p><u>Risk assessment</u></p> <p>The Principles state that FIs should develop internal processes to monitor clients’ E&S risks over time, and that banks should actively measure and report on the impact of E&S risks on their financial performance. The framework requires to carry out appropriate E&S due diligences at transaction level and at client level. It also encourages to categorize projects/clients according to their level of E&S risk and invites engagement to mitigate negative E&S impacts.</p> <p><u>Project supervision & portfolio review</u></p> <p>The Principles ask to develop process and prorogues to manage E&S risks during supervision.</p> <p><u>Training</u></p> <p>The Principles also recommend FIs monitor the training and capacities of key departments including finance and credit risk. It highlights the training of (i) front officers, (ii) second lines of defense (risk officers and/or compliance officers) and (iii) E&S experts</p> <p><u>External communication</u></p> <p>The policy requires FIs to establish and maintain any inquiry/complaints mechanism with regard to FI’s E&S or ESG practices.</p>	<p>Kenya Sustainable Finance Principles and Guidelines (Kenya Bankers Association, 2015) - Principle 3: page 28 (§1) & (§3)</p> <p>Kenya Sustainable Finance Principles and Guidelines (Kenya Bankers Association, 2015) – Principle 3: page 28 (§1 & §2) and (2) – Principle 4: page 30 (§3); Principle 5: page 31 (§2)</p> <p>Kenya Sustainable Finance Principles and Guidelines (Kenya Bankers Association, 2015) - Principle 3: page 28 (§1)</p> <p>Kenya Sustainable Finance Principles and Guidelines (Kenya Bankers Association, 2015) – HR Policies: page 32 (§3)</p> <p>Kenya Sustainable Finance Principles and Guidelines (Kenya Bankers Association, 2015) - Principle 3: page 29 (§2)</p>

Pillar III: ESG Integration (cont.)

Indicator	Policy requirement	Reference
E&S risk management (cont.)		
Indicator 18	<p><u>E&S reporting</u> The policy requires FI to report regularly on E&S or ESG performance, including publicly, to investors or to regulators.</p> <p>The policy make E&S or ESG reporting and disclosure more consistent across financial institutions through standardized templates.</p>	<p>Kenya Sustainable Finance Principles and Guidelines (Kenya Bankers Association, 2015) - Principle 5: page 31 (\$2)</p> <p>Sustainable Finance Initiative (SFI) Voluntary Reporting Template (Kenya Bankers Association, 2019)</p>
Enforcement		
Indicator 19	The framework provides financial and/or non-financial incentive for setting up ESRM.	Catalyst Awards

4. Policy coverage to be developed

Pillar	Sub Pillar	Gaps	Areas for improvement
Pillar I: Strategic Alignment	Alignment with global E&S standards and best market practices	30%	<ul style="list-style-type: none"> ➤ Reference to established international climate finance reporting standards ➤ Requirement to seek external verification for E&S policies, practices, and results
	Alignment to NDCs and with national/regional climate change targets	33%	<ul style="list-style-type: none"> ➤ Defined main climate risks for their local financial sector
	Multi-stakeholder collaboration	0%	-
Pillar II: Climate and Green Finance	Products & services	25%	<ul style="list-style-type: none"> ➤ Definition/examples for social/sustainable assets (besides debt products) ➤ Guidelines for green financial assets (excluding green bond)
	Climate & green investment reporting	60%	<ul style="list-style-type: none"> ➤ Requirement for FIs to report on climate risk exposure at portfolio level ➤ Encouragement for FIs to report publicly on their green finance activities
	Measurement	75%	<ul style="list-style-type: none"> ➤ Taxonomy of potential environmental impacts ➤ Methodologies, tools, and/or templates to measure and report environmental impacts ➤ Requirement to monitor climate risk exposure at portfolio level ➤ Reference to specific climate exposure methodologies ➤ Encouragement of mitigation steps
	Incentives	0%	-
Pillar III: ESG Integration	Governance of E&S	30%	<ul style="list-style-type: none"> ➤ Requirement of FIs' management to report on the E&S strategy implementation to the governing bodies ➤ Requirement for FIs to define role competencies
	E&S risk management	22%	<ul style="list-style-type: none"> ➤ Requirement for FIs to set E&S or ESG objectives and targets ➤ Requirement for FIs to disclose publicly the E&S policy and its governance ➤ Encourage site visits for high-risk transactions ➤ Requirement to incorporate E&S covenants and investment conditions into legal agreements with clients ➤ Encourage a periodic review of E&S risks at aggregate portfolio level
	Enforcement	67%	<ul style="list-style-type: none"> ➤ The implementation of the framework regularly verified or information regularly collected from FIs ➤ Sanctions/penalties/warnings for noncompliance

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