

A Sustainable Banking Network (SBN)
Task Force Report

Addendum to the SBN Report
*Necessary Ambition: How Low-Income
Countries Are Adopting Sustainable Finance
to Address Poverty, Climate Change, and
Other Urgent Challenges*

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Country Profile Kenya



Sustainable
Banking
Network



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Kenya



SBN Member: Kenya Bankers Association (KBA)
(member since 2015)

SBN Working Groups: Measurement Working Group,
IDA* Task Force, and Green Bond Working Group

Key policy documents:

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

SBN Progression Matrix Stage (2019): Advancing – the country has adopted voluntary industry principles (which were subsequently made mandatory by the central bank), has implementation tools and initiatives in place, and requires reporting by financial institutions.

SBN and IFC role: IFC, through the Africa region Environmental and Social Risk Management (ESRM) Program for financial institutes, 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. IFC estimates that the country's climate-smart investment potential in selected sectors

is \$81 billion from 2016 to 2030. In Nairobi alone, the estimated climate investment opportunity is \$8.5 billion from 2018 to 2030.¹

About this Country Profile:

This Country Profile is an addendum to the SBN report: *Necessary Ambition: How Low-Income Countries Are Adopting Sustainable Finance to Address Poverty, Climate Change, and Other Urgent Challenges*. The report and country profiles for the first time capture in a systematic way how sustainable finance is being harnessed by low-income countries to address a range of common environmental and social priorities and drive financial sector innovation despite market constraints.

The report and profiles complement and build on the data collection and analysis for the SBN 2019 Global Progress Report, which covered 39 emerging markets. They delve deeper into the experiences of 8 low-income countries in the SBN network through an online survey, interviews, and desk research.

This country profile has four sections:

- ❑ The **Drivers of Action** – factors that spurred the country to develop sustainable finance policies or voluntary principles.
- ❑ The country's **Experiences in Developing Sustainable Finance Frameworks** and what was learned in the process.
- ❑ **Future Priorities** for the country as it continues to develop its sustainable finance systems.
- ❑ How the country views linkages between sustainable finance policies and **Broader Development of its Financial System**.

¹ IDA stands for the International Development Association (ida.worldbank.org), an international financial institution under the World Bank Group that offers concessional loans and grants to the world's poorest developing countries.

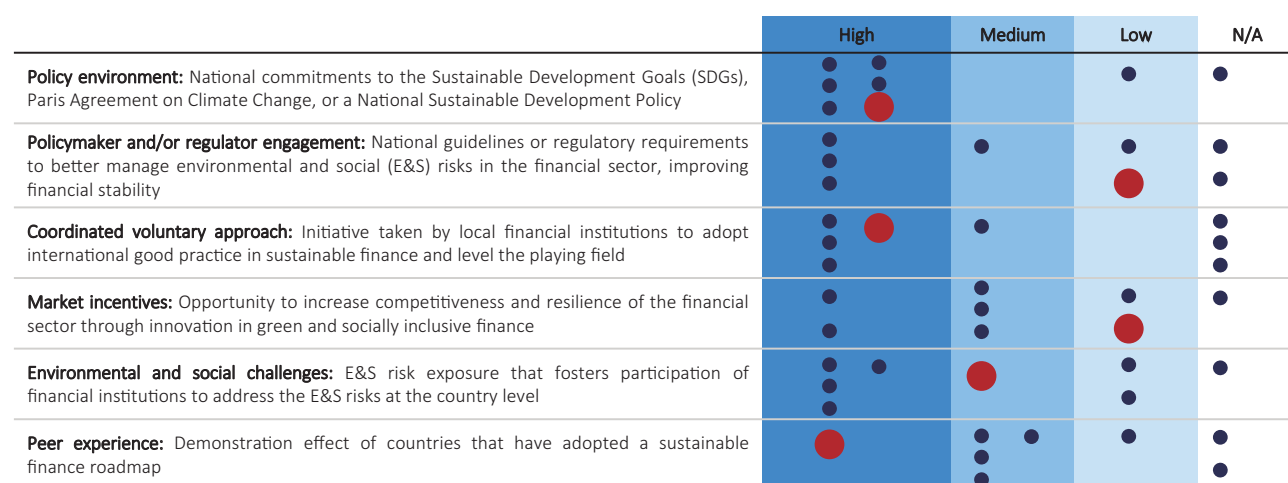
1 Drivers of action

Which factors spurred sustainable finance in Kenya?

The mobilization of the domestic financial sector has been a key driver for Kenya's progress toward sustainable finance. The Kenya Bankers Association (KBA) has driven sustainable finance, developing the Sustainable Finance Principles and Guidelines, and supporting the voluntary implementation of the Principles by banks. Local finance institutions were mobilized out of awareness that sustainability concerns were impacting market forces. This awareness was prompted by the launch of national green strategies

and the activities of development finance institutions, which were concerned that their strategies and investment portfolios should minimize E&S risks. Figure 1 compares the drivers of sustainable finance in Kenya to other SBN banking associations from IDA countries. In common with other SBN banking association members, Kenya places less emphasis on policymaker engagement and greater emphasis on the coordinated voluntary approach. 'Peer experience' has been an important driver in Kenya and was integral in the process of drafting the Principles (discussed below). In common with peers, sustainable finance has been supported by Kenya's policy environment, for example the country's commitment to green growth.

Figure 1 The mobilization of the domestic private sector and peer experience have driven sustainable finance in Kenya, facilitated by a supportive policy environment



Notes: Large dots represent Kenya's responses; small dots represent those from other IDA countries.

Source: SBN IDA Diagnostic Survey responses

2. Developing a sustainable finance framework

What process did Kenya go through to develop a framework to promote sustainable finance, and what was learned along the way?

The process of developing a sustainable finance framework in Kenya, summarized in Figure 2 highlights the driving force of the KBA in initiating a sustainable finance program and drafting the Principles. This process has been supported by the financial sector and the broader policy context. In drafting the Principles, the KBA drew on international experience, such as the Equator Principles, the UN Global Compact, and UNEP-Finance Initiative.

Figure 2 Stages and steps for developing and implementing the sustainable finance framework in Kenya



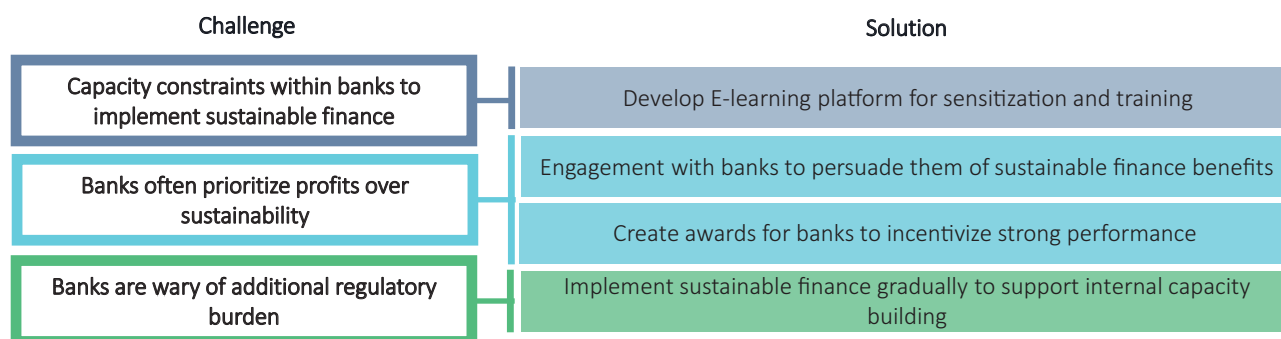
Source: SBN IDA Diagnostic Survey responses

In the process of developing and implementing the sustainable finance framework, the key challenge was limited capacity in the banking sector.

Local financial institutions were unconvinced that sustainable finance was a priority for their businesses and were concerned that the regulatory burden associated with sustainable finance would be costly and punitive. For example, some banks believed it would prevent them from doing business with certain sectors, such as oil and gas. To establish consensus for sustainable finance, the KBA engaged with banks to persuade them of the opportunities sustainable

finance presented. For example, the KBA developed an e-learning platform to sensitize and build capacity among banks. 80 percent of bank employees have since been trained on the platform. Furthermore, the KBA reassured banks that sustainable finance would be implemented voluntarily and gradually, enabling banks to build internal capacity. Although the Principles were launched in 2015, voluntary progress reporting only began in 2019. The KBA has also incentivized green finance flows. For example, in 2017 it launched the Sustainable Finance Catalyst Awards. These solutions are summarized in the figure below.

Figure 3 The solutions Kenya found to address challenges in sustainable finance implementation



Source: SBN IDA Diagnostic Survey responses

“ *The main challenge raised was the view that Sustainable Finance was easier for international banks than local banks, and that it would cost local banks in time and compliance costs. Therefore, to get consensus, it was agreed that the Sustainable Finance Principles and Guidelines would not be mandatory until all members were given the opportunity to build internal capacity.* ”

“ *There is a greater appreciation of how climate change poses a risk to the banking industry portfolio. Banks are also now more amenable to partnering with development finance institutions on green credit lines.* ”

- Kenya Bankers Association

3. Future priorities

What are Kenya's priorities as it continues to develop a sustainable finance system?

The key priority for sustainable finance development in Kenya is the continuous development of its green bond market. A framework for green bond issuance was launched and the first green bond issued in 2019. In addition, in 2019 the KBA reviewed the 2015 Guidelines and initiated voluntary reporting toward sustainable finance implementation, ensuring that reporting requirements were not overly onerous for local banks. Furthermore, the 2019 Kenya Finance Act introduces a withholding tax exemption for green bonds, making Kenya one of the first countries in Africa to do so. These

efforts will be supplemented by ongoing development of the e-learning platform.

Figure 4 compares Kenya's ongoing challenges in developing a sustainable finance system with those faced by SBN member associations in other IDA countries. As with peer countries, there is significant focus on a supportive enabling environment, capacity building and developing specific tools to support sustainable finance implementation. The KBA expressed concern that there has been limited regulator intervention to incentivize or motivate the banks to implement sustainable finance. The high level of staff turnover in banks also poses a challenge, as it makes it difficult for sustainable finance to gain traction across the industry.

Figure 4 Ongoing challenges to be met in developing and implementing sustainable finance for Kenya

		High	Medium	Low	N/A
Enabling environment and capacity building	Build the capacity of regulators and financial institutions	● ● ● ● ●			
	Enhance cooperation among financial institutions	● ● ● ● ●	● ●		
	Provide clear incentives for sustainable finance	● ● ● ● ●	● ●		
	Develop and launch a sustainable finance roadmap	● ● ● ● ●	●		●
	Expand sustainable finance to other financial sectors	● ● ● ● ●	● ● ● ●	● ●	
Specific regulations or tools	Develop a taxonomy of green/socially inclusive projects	● ● ● ● ●	●		
	Promote publicly available environmental data	● ● ● ● ●	● ●		
	Create green asset guidelines, incentives, and awareness	● ● ● ● ●	● ●	●	

Note: Large dots represent Kenya's responses; small dots represent those from other countries.

Source: SBN IDA Diagnostic Survey responses

4. Broader financial sector development

How does sustainable finance in Kenya connect with broader ambitions?

In Kenya, stakeholders are concerned about financial sector development more broadly, both with regard to cross-cutting issues and within specific sectors. Figure 5 compares Kenya's concerns related to financial sector development to the concerns faced by other SBN member associations from IDA countries. In Kenya, concerns about E&S management and climate and green finance are ranked lower than other finance sector priorities, such as agriculture finance, SME finance, financial inclusion, long-term financing, and fintech/digital finance. This highlights the importance of defining sustainable finance broadly and integrating these wider considerations fully into the sustainable finance framework. In Kenya the Sustainable Finance Priorities and Principles incorporate financial inclusion and encourage financial institutions to innovate and leverage existing and

emerging technologies to reach current and potential markets while economically empowering communities.

Furthermore, sustainable finance development is expected to contribute to poverty reduction in Kenya. For example, the KBA prioritizes green finance in the agriculture sector in both climate change mitigation and adaptation, and has estimated that the agriculture sector has a green finance need of over \$180 million over the next ten years. This investment is expected to contribute to poverty reduction, as it increases the resilience of the agriculture sector (which is particularly vulnerable to climate change) and encourages investment in a sector characterized by informal employment. Despite being a key driver of the economy, banks have historically struggled to engage with the agriculture sector, as they were unsure how best to manage risk. The KBA also prioritizes green finance in the manufacturing sector, which has an estimated green finance need of \$480 million over the next ten years, which should also contribute to employment creation.

Figure 5 Key areas of concern related to financial sector development for Kenya

		High	Medium	Low	N/A
Cross-cutting issues	Financial inclusion	• • • • •			
	FinTech/digital finance	• • • • •	•		
	Long-term financing	• • • • •	• •	•	
	Environmental and social risk management	• • • • •	•		• •
Sectoral financial areas	Agricultural finance	• • • • •			
	SME finance	• • • • •	• •		
	Climate and green finance	• • • • •	• • •	•	
	Disaster risk finance, disaster/weather insurance	•	• • •	• •	•

Notes: Large dots represent Kenya's responses; small dots represent those of other countries.

Source: SBN IDA Diagnostic Survey responses

“The agriculture sector, which is most affected by climate change, is a key area for sustainable finance intervention, including investments in both climate change mitigation and adaptation. The majority of Kenya's agriculture sector is informal, and there is a need of over \$180 million worth of green finance over the next 10 years for the agriculture sector in Kenya. The second sector that requires green finance and contributes to employment creation is the manufacturing sector, which needs \$480 million worth of green finance over the next 10 years.”

- Kenya Bankers Association

¹ IFC. 2016. Climate Investment Opportunity Report. 2018. Climate Investment Opportunities in Cities - An IFC Analysis.

Access SBN knowledge resources at:
www.ifc.org/sbn

Access the SBN Necessary Assessment Report
and associated Country Profiles at:
www.ifc.org/sbnnecessaryambition



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