

2020 Report on the State of
**Sustainable
Finance**
in Kenya's Banking Industry



KENYA BANKERS
ASSOCIATION



SOCIETY

ENVIRONMENT

ECONOMY



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Foreword

Banks Have Been at the Forefront of Sustainable Finance Transformation

We would like to convey our sincere appreciation to WWF-Kenya for their funding support that has made it possible to develop the State of Sustainable Finance in Kenya's Banking Industry report. The report captures the gains made in the industry in embracing Sustainable Finance practices and highlights areas of opportunity for policy intervention. Indeed, this report will scale up efforts to further boost our collective drive to enable Kenya's transition into a green economy.

What's more, WWF-Kenya's backing has enabled us to revamp and convert the SFI e-Learning platform to be a world-class, modern, dynamic and disability friendly site in line with our ambition of promoting inclusivity through technology. This only affirms our quest to encourage the Sector to tap and support underserved segments of the society.

Unquestionably, we are profoundly honoured by the incredible efforts made by the banking industry in not only adopting the Sustainable Finance Initiative (SFI) Guiding Principles but also integrating them to ensure enhanced benefit for People, Planet and Profit.

This is as a result of the sustained capacity building efforts carried out diligently by KBA with the support of member bank Human Resources personnel and Sustainability Champions. Member bank Chief Executives have also been at the forefront of this transformation when they ratified the SFI-Guiding Principles. To date, over 33 thousand bank employees have been trained under the SFI e-Learning platform, to make more inclusive decisions that factor in economic, environmental, and social impacts while also balancing their firm's financial returns.

In regard to encouraging sustainable management of resources, I am inspired by interventions such as the Green Bond Program - Kenya. The Program was initiated through the Sustainable Finance Initiative by the Kenya Bankers Association in partnership with Nairobi Securities Exchange,

Climate Bonds Initiative, FSD Africa and FMO - Dutch Entrepreneurial Development Bank.

Further, it is driving the financial services industry in the right direction in enabling the rise of a domestic green bonds market in Kenya. In 2019, I am pleased to share that the first green bond in East and Central Africa was issued by Acorn Holding as a result of the unrelenting efforts from the Program partners. Last year, Acorn Holdings continued to set the pace for others to follow when they listed their shilling denominated bond in the London Stock Exchange. A first for Kenya and East Africa. The proceeds from the bond is currently going towards the construction of 5,000 environmentally friendly student housing.

Prior to the issuance, the partners were able to successfully engage the Parliamentary Committee of Finance and Budget with a proposal to introduce tax exemption on green bonds issuance. This proposal was assented into Law by H.E President Uhuru Kenyatta.

I wish to commend and encourage the industry to remain steadfast in advocating for Sustainable Finance practices. KBA is committed to continue to develop more trainings on the subject matter in conjunction with various stakeholders to meet the very apparent capacity building needs for the sector.



Dr. Habil Olaka

Chief Executive Officer
Kenya Bankers Association

If You Want to Go Far, Walk Together

Over the years, the Kenya Sustainable Finance journey has intertwined with other like-minded countries through industry associations and regulators, all of whom have been on a path towards ensuring a more resilient, responsive and responsible financial sector. From Mongolia to Peru, Morocco to UAE, and Ghana to South Africa, the Kenya Bankers Association (KBA) has engaged in a process of industry development that has largely been shaped by the market.

When I started this work in 2012, I was the only banker in industry policy circles advocating for Sustainable Finance. Today, you cannot escape conversations about financial inclusion, SME development, environmental risk management and the green economy. I'm pleased and honored to have steered this process through the Sustainable Finance Initiative (SFI) and this report is just a glimpse of the journey.

I would like to thank all the partners who have entrusted KBA over the years to guide the industry.

More so, I would like to thank the banks: the CEOs who have given KBA this mandate; and all bank employees who have taken the time to learn and understand how they can help shape a more sustainable economy through their roles.

We are excited to have set the stage for the issuance of Kenya's first certified Green Bond that was issued by Acorn Holdings. The transaction was arranged by Stanbic, a KBA member bank, and guaranteed by GuarantCo; and markedly supported by KBA member banks.

What's most interesting about the recent developments in Sustainable Finance is how much bank employees have embraced efforts toward enhancing financial inclusion through digital accessibility for persons with disabilities (PWDs). This is a recent effort which is the final cap in the SFI work as it rests squarely on the Second SFI Principle which focuses on Market Innovation and Inclusivity. We often forget the social dimension of sustainable finance at the policy level; but the

Coronavirus (COVID-19) Pandemic has reminded us how inextricably intertwined the social dimension of sustainability is with the economy and the environment.

If you want to go fast, walk alone. If you want to go far, walk together. This African proverb has been the guiding light of the Sustainable Finance Initiative and I believe is the "secret sauce" in so far as the successes green and sustainable finance has witnessed in Kenya. Yes, there are still hurdles to cross. Banks need to fully implement the SFI Guidelines now that we have commenced voluntary reporting on the SFI Principles. Meanwhile, the development finance community should play an enabling role and not crowd out capital market innovation -- so as to promote wealth creation amongst retail investors through green and other sustainability bonds. The recent pronouncement that Government-backed affordable homes must be green certified was a welcomed policy change. Government should continue to send the right policy signals as envisioned in the Climate Change Act and Green Economy Strategy and Implementation Plan.

That said, we have certainly seen green shoots enabled by partnerships across the industry, with policymakers and development finance institutions. The stage is now set for the next generation of finance to become mainstream, leaving no industry and no Kenyan behind.



Nuru Mugambi, FKIB

Public Affairs Director and Sustainable Finance Initiative Lead
Kenya Bankers Association

KBA is Leading the Way in Africa

Sustainable finance covers a broad range of financial instruments, products, and services in banking and financial markets. One thing they all have in common is the consideration and integration of environmental, social and governance (ESG) criteria in investment decisions. Sustainable finance has continued to grow over the years. According to the Global Sustainable Investment Alliance (GSIA), it increased by a 34 percent 2019 to US\$30.7 trillion. This is about one-quarter of the professionally managed assets globally.

Africa is not left out. Green bonds for green projects, for example, are growing in Africa. The African Development Bank (AfDB) has been at the forefront of issuing green bonds since 2013. Through its green bond issuance, the Bank has allocated US\$3.7 billion to 48 projects across 18 African countries as at 2019. These projects include solar and hydropower, energy efficiency, clean transport, biogas, forestry conservation, water, and wastewater management. In addition, in 2020, AfDB took a step further as it launched a record-breaking US\$3 billion “Fight COVID 19” social bond. The bond, which will help address the socio-economic impact of the COVID 19 pandemic in Africa, is the largest dollar denominated social bond issuance to date in the capital market. In 2017, Nigeria issued US\$30 million and another US\$42 million in 2019.

Corporate green bonds are also receiving attention. In 2020, Acorn Holdings dual-listed its US\$42.7 million green bond on the London Stock Exchange. The bond meant to finance green buildings and affordable accommodation for 5,000 students in Nairobi, Kenya, was first issued in 2019 in Nairobi. Access Bank, a Nigerian bank also issued a US\$41.1 million green bond in 2019 to fund projects such as flood defence, solar power and finance agriculture to enhance food security. The bond was also dual-

listed on the Luxembourg Stock Exchange, the largest listing global platform for green bonds. In South Africa, Nedbank issued US\$100 million of renewable energy bonds. Proceeds from the issuance is being used to finance three solar energy projects and one wind energy project.

Despite the growth of bonds for project finance, it is instructive to note that two thirds of worldwide finance are provided by banks¹. Therefore, the banking system is key to achieving the Sustainable Development Goals (SDGs) with its set targets for a sustainable future for all. In Africa, voluntary guidelines and mandatory guidelines driven by regulation have been developed to help financial institutions better appreciate sustainable banking. The Development Finance Institutions (DFIs) have given significant support to these efforts. The International Finance Corporation (IFC), in particular, created the Sustainable Banking Network, which has enabled some countries to develop their sustainable banking principles either through their Central Banks or through their Banking Associations.

Some of these include the: *Nigerian Sustainable Banking Principles* (2012) and *NSE Disclosure Guidelines* (2018) in Nigeria; *Principles on E & S Risk Management* (2014) in South Africa; *Sustainable Finance Guiding Principles* (2015) in Kenya; and *Ghana Sustainable Banking Principles* (2019). It is expected that this will drive increased regulatory pressures on banks and other financial institutions to embark on the sustainability journey through their operations and lending activities. This is already happening in the South Africa, where listed companies are mandated to comply with non-financial disclosures. In addition, in Nigeria all banks are expected to comply mandatorily with the sustainable banking principles.

1 <http://www.unepfi.org/news/industries/banking/principles-coregroup-announcement/>

Empirical evidence shows that sustainable finance drives business growth. Specifically, research by Global Alliance for Banking on Values (GABV) shows that sustainable banks have higher and more stable profits, as well as stronger growth than other banks. As such, there is an increased focus on sustainability. In the case of Africa, a strategic integration of its different sustainable finance practices with the Sustainable Development Goals (SDGs) would unlock opportunities and innovation by providing sustainable investment especially in education, health, power and financial inclusion, which would contribute to addressing the sustainable development needs of the continent and the growth of the financial sector.

The need to enhance finance for societal impact has led to the development of International sustainable finance frameworks that have become best practice for the advancement of sustainable finance in the global financial sector. The frameworks, which have been specifically developed as self-governance regulation to help businesses in the financial sector align their businesses with sustainable finance practices, include the *UNEP Finance Initiative Principles for Responsible Banking* - a framework that was launched by a coalition of Banks in 2019 with African Banks contributing significantly to its development.

The *Principles for Responsible Investment*, *UNEP Finance Initiative Principles for Sustainable Insurance*, *Equator Principles* and the *IFC Performance Standards* are also international financial sector best practices framework that help organisations in the financial sector to develop ESG screening capability in their transactions, lending and investment decision making process. These frameworks, coupled with general sustainability frameworks and best practices that are non-sector specific, offer financial organisations the platform to develop sustainability knowledge and align their business strategy with sustainability innovation thinking.

Notwithstanding the growth of sustainable banking and finance in Africa, which is positive, it

is somewhat ironical that despite the continent's poverty, education, health and economic challenges, no African country or corporate has embraced the social bond issuance except the AfDB. However, for sustainable finance to truly have a foothold in Africa and deliver socio-economic development, the continent should strategically explore social bonds. This will ensure the development of an economy that will improve livelihood, wellbeing, better education, sustainable infrastructure and enhance de-carbonisation.

The Kenya Bankers Association (KBA) is leading the way in Africa, which is clearly shown in this report. The report highlights the progress banks and other financial institutions in Kenya have made in the broad area of sustainable finance. Whilst driven by global pressures, it shows how these institutions are domesticating their practices and innovating to meet local needs, which is very important. The sustainable finance e-learning platform of KBA is particularly impressive.

However, despite the good efforts of KBA, it is important for sustainable banking in Kenya to be more driven by regulation rather than being totally left to self-governance. This is where the KBA will need to do some work to bring on board the Bank of Kenya.



Professor Kenneth Amaeshi

Expert in Sustainable Finance in Africa
 Chair in Business & Sustainable Development
 Director, Scaling Business in Africa
 University of Edinburgh, UK

Report on the State of Sustainable Finance in Kenya

I. Background

The Kenya Bankers Association (KBA) has been implementing a more robust and wider mandate after the publication of its 2014-2018 Strategic Plan. Previously, the association, formed in July, 1962, had largely focused on industrial relations and negotiating on behalf of its member banks and securing their interest, while interfacing with trade unions and the government under the tripartite model.

The Strategic Plan handed KBA an expanded mandate which includes promoting industry development and sustainable economic growth. To implement the Association's new mandate, KBA's values, vision and mission were redefined.

Vision

Enhancing KBA's position as the voice of banking; and an innovative leader within the financial services sector in order to reinforce the industry's ability to be a primary driver of the economy's development aspirations.

Mission

To be the voice of banks through thought leadership anchored in research and analysis. To champion industry development through innovation, advocacy and the promotion of "fair play" among banks.

KBA's modus for achieving these goals has been closer engagement with the government of the day and primary regulators of the country's financial sector, namely the National Treasury, Central Bank of Kenya (CBK), Capital Markets Authority and the Retirement Benefits Authority.

Other tools that KBA has been implementing to achieve these goals include lobbying and advocacy as well as championing industry development and innovation by coordinating members and partnering with stakeholders on key strategic initiatives. KBA's Sustainable Financing Initiative (SFI) falls in this category.

KBA's leadership in promoting sustainable finance principles and practices in Kenya's banking industry started in 2012. Since then, its activities in this area have impacted not only the financial services sector but also spheres of the economy including the capital markets, with the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE) playing an active role.

This report seeks to catalogue Kenya's Sustainable Finance journey, its various components, achievements, challenges, opportunities, successes and future outlook, especially in the context of a global pandemic.

Sustainable Finance Guiding Principles

The SFI Guiding Principles inform financiers on how to optimise the balancing of their business goals with the economy's future priorities and socio-environmental concerns.

The Guiding Principles are in line with international best practice and consistent with the financial sector's environmental and social risk management aspirations. They are meant to guide banks in the implementation and adoption of sustainability practices and the incorporation of the same into their day-to-day operations. They provide a much-needed case and rationale for sustainable banking in the Kenyan and regional context.



Principle 1: Financial Returns versus Economic Viability

Financial institutions should consider both financial returns and the economic viability of their financing activities. Economic viability, defined as the ability to realise sustained long-term growth/returns, should be factored into the decision-making process, particularly in the financing of commercial activities.

The Guiding Principle is that financial viability is necessary from an investment perspective; but is not a sufficient condition for sustainable economic development.



Principle 2: Growth through Inclusivity & Innovation

Financial sector players seek to grow and enhance service delivery for the markets they currently serve, as well as reach out into diversified markets with economic potential thereby fostering financial deepening.

The Guiding Principle is that financial institutions in pursuit of growth should innovate and leverage on existing and emerging technology to reach current and potential markets while economically empowering communities.



Principle 3: Managing & Mitigating Associated Risks

Economic development is intertwined with social, humanitarian and environmental concerns; therefore, financiers are materially affected by these concerns despite the fact that these risks may be perceived as in- direct or secondary.

The Guiding Principle is that firms should seek to mitigate social and environmental risks associated with their financing activities through client engagement and effective policies and risk assessment procedures; and in addition, firms should actively measure and report on the financial impact of these risks on their business performance.



Principle 4: Resource Scarcity and Choice

In meeting present needs, financial institutions should ensure optimal management of resources, including financial resources and natural capital, so as to avoid compromising the future generation's needs.

The Guiding Principle is that optimal resource management is realized through productivity and efficient utilization of resources; and is guided by comprehensive opportunity cost assessment.

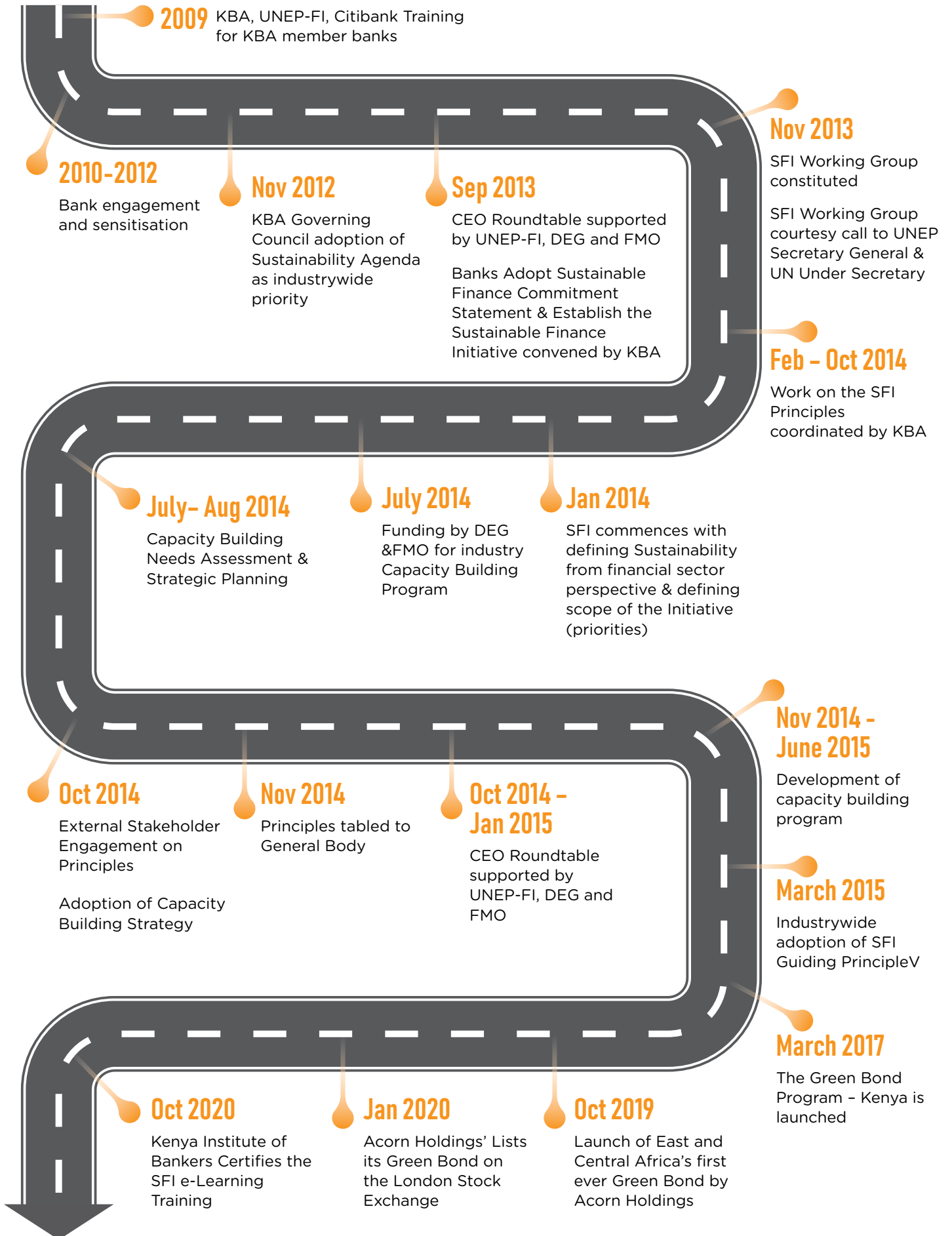


Principle 5: Business Ethics & Values

Promoting enhanced oversight of business practices at both the Management and Board levels contributes towards effective, resilient Organisations. The quest for ethical practice, efficiency, productivity and waste minimization should be fostered from the leadership and enabled by adequate governance structures.

The Guiding Principle is that the leadership of financial institutions should ensure the organisation to deliver returns in the long term, and in a responsible manner that sees optimal utilization of resources towards achieving positive externalities.

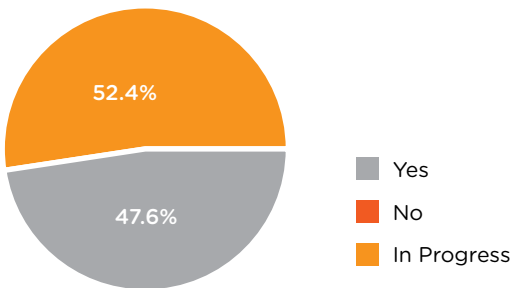
Roadmap of the SFI Journey



Voluntary SFI Disclosure

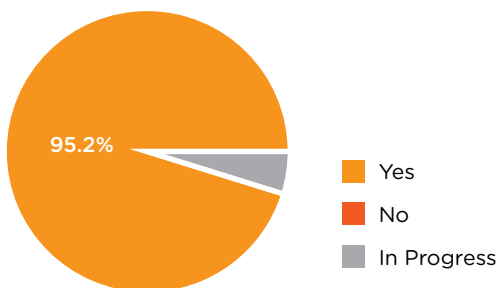
In 2019, KBA initiated a Sustainable Finance Initiative voluntary reporting exercise aimed at establishing a baseline on the progress the Banking Industry had made in implementing the SFI Guiding Principles. The voluntary disclosure exercise established that 52.4 percent of banks were on course in implementing the Principles, while 47.6 percent of banks were actively implementing the Principles in their day-to-day operations.

Has your bank implemented the SFI Guiding Principles?



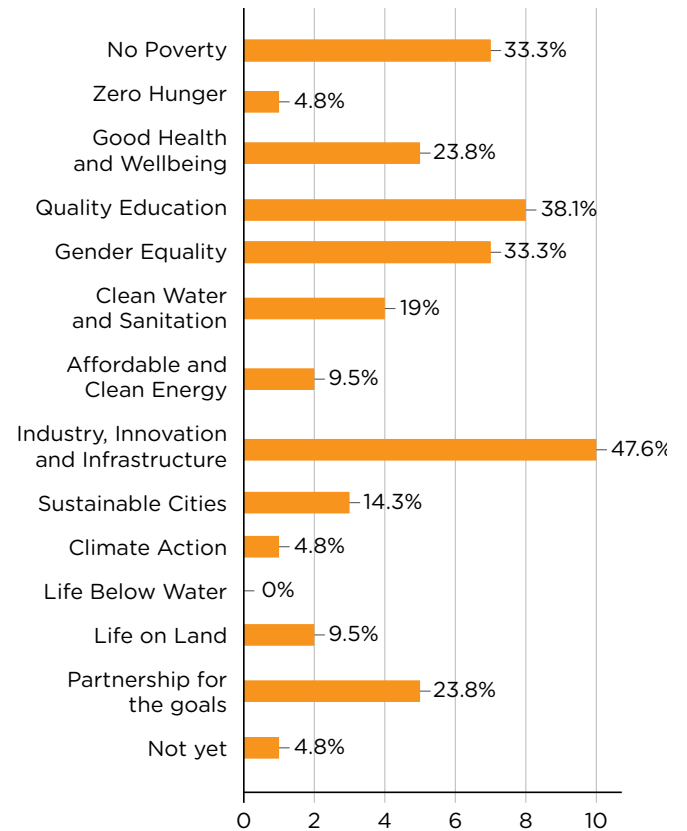
Separately, according to the survey about 95.2 percent of banks support Kenya's attainment of the Sustainable Development Goals.

Does your bank support Kenya's attainment of the Sustainable Development Goals (SDGs)?

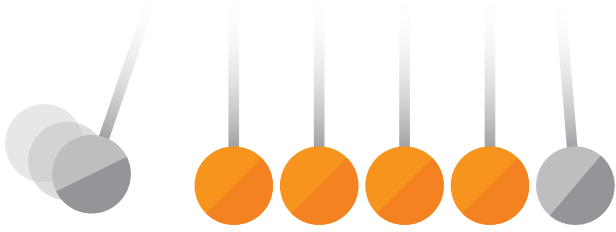


Majority (47 percent) of the banks reported that they were championing SDG 9, Industry Innovation and Infrastructure.

Which SDG does your bank support the most? List up to 3 SDGs.



Summary Report of Banks SFI Implementation Disclosure



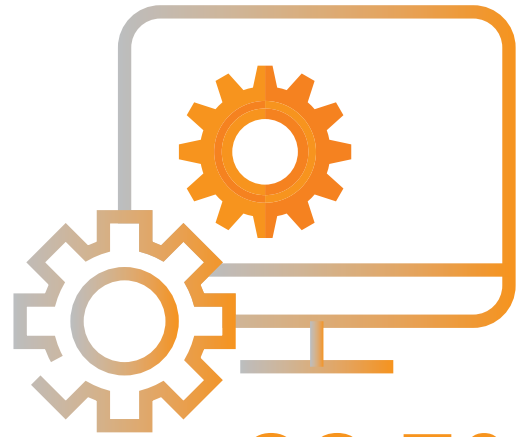
85.7%

of banks reported that they monitor macroeconomic impact on firm's performance, including future impacts.



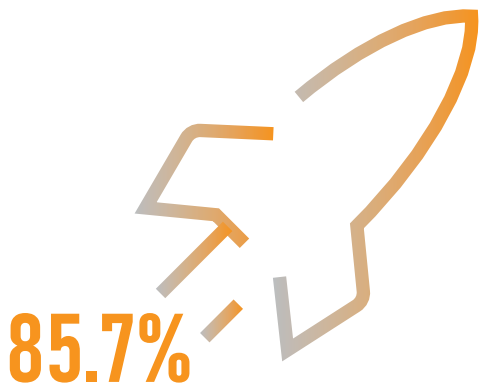
85.7%

of banks indicated that their credit policy ensures responsible and sustainable lending that promotes Kenya's sustainable economic development.



90.5%

of banks revealed that they leverage on technology to create new markets and reach underserved segments, including minority groups such as women, youth, and People Living with Disability.



85.7%

of banks indicated that they had launched a product in the last 12 months to target an underserved market segment. (SMEs, agriculture, informal sector, women, youth, PWDs).



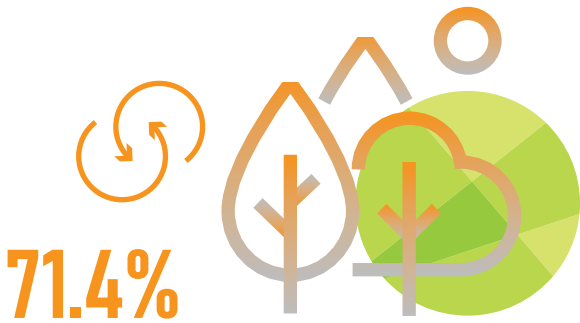
95.2%

of banks conduct capacity building/training programs for their customers.



52.4%

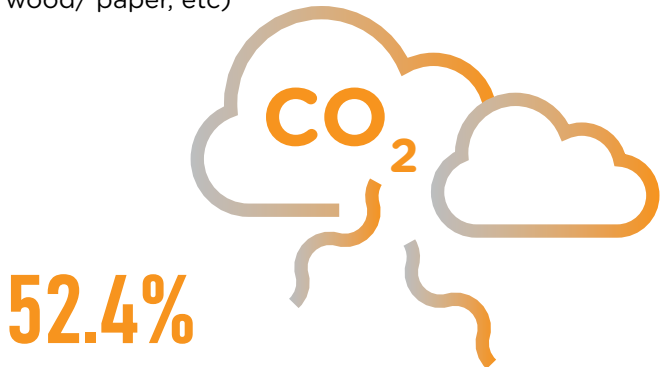
of banks revealed that their management report on Environmental, Social and Environmental impact to the board credit committee or to the full board of directors.



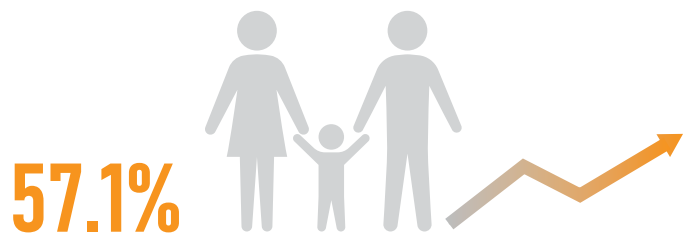
of banks reported that their bank developed policies that promote optimal management of financial resources (bank deposits) and natural capital (water use, clean air/ pollution control, wood/ paper, etc)



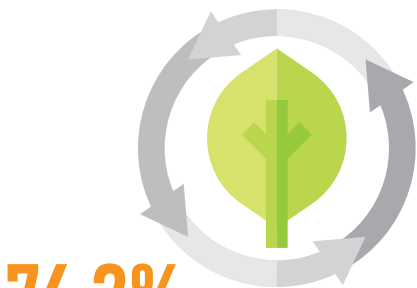
indicated that they engage commercial clients such as manufacturers and agriculture sector and determine their capacity to reduce environmental and social risks so as to be more sustainable.



of banks revealed that they measure their carbon emissions/ carbon footprint (buildings, branches, ATMs, fleet, agents)



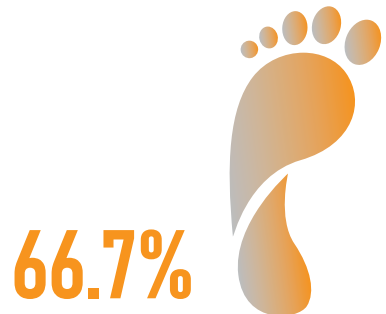
of banks indicated that their board have established formal governance structures that promote economic empowerment and enhances social and environmental aspects.



of banks have integrated Environmental and Social Management Systems/ Framework (ESM) in their lending practices.



of banks surveyed stated that their management developed procedures that ensure compliance with local environmental laws including Climate Change Act, and labour standards.



of banks have established a monitoring and evaluation of operations and lending in so far as its environmental and social footprint.



of banks publish a comprehensive sustainability report that is not integrated in financial reporting.



of banks surveyed revealed that their bank's board of directors oversee the bank's sustainability agenda.

II. The Operating and Policy Environment

For a long time, Kenya's Sustainable Finance practice lacked any clear operational or regulatory guidelines. This, despite the existence of a number of blueprints, both local and international, that firmly affirmed the country's commitment to sustainable development.

Sustainable finance is not new to Kenya's banking industry. However, the approach to this progressive concept had been somewhat disjointed and disparate and at the level of individual banks.



(L-R) KBA CEO, Dr. Habil Olaka is joined by German Investment Corporation representatives, as well as KBA Chair and KCB Group, CEO, Joshua Oigara in launching the KBA Sustainable Finance Initiative in 2015

To address this lacuna, the banking industry under the auspices of KBA embarked on a push for adoption of sustainable practices by members in 2013. The move gained impetus against the backdrop of a new constitutional dispensation enshrining sustainability among the national values and principles of governance.

The Constitution 2010 recognizes the need for Kenya to pursue the path of sustainable development. It elevates this principle not just as a value and principle of governance, but extrapolates it into a progressive Bill of Rights that grants each citizen the right to a clean and healthy environment.

Banks in Kenya were increasingly becoming alive to this constitutional imperative hence the quest for the entrenchment of a robust SFI framework in industry practice. Whereas banks have over the years increasingly embraced corporate social investment (CSI) as a route to sustainability, the new constitutional paradigm requires they go beyond moral obligation and competitive advantage in addressing environmental, social and governance (ESG) concerns around their business operations.

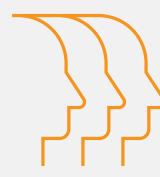
Later, Kenya would prioritize the transition to a green economy in line with the outcomes of the Rio +20 Summit in 2012. A Green Economy Assessment Report published in 2014 had argued that Kenya stood to secure long-term benefits by becoming a green economy.

Against this backdrop of a concerted domestic and international push for sustainable development, Kenya's banking industry has since 2013 progressively developed priorities, principles and best practice guidelines for sustainable finance under the Sustainable Finance Initiative spearheaded by KBA in partnership with a number of stakeholders.

The three main priority areas are comprehensive risk management; business practice leadership and governance; and growth through inclusivity, innovation and technology. These priorities also form the key thematic areas of the SFI, collectively addressing economic and associated risks; ethical practices and conduct; and emerging technology as a driver of financial services in Kenya.



Comprehensive risk management;



Business practice leadership and governance;



Growth through inclusivity, innovation and technology.

Sustained advocacy by a number of stakeholders made policy makers realize that there was need to put together certain overarching legal and philosophical principles to support and guide the mainstreaming of sustainability, as a critical concept in the country's pursuit of socio-economic development.

In 2016, the government unveiled the Green Economy Strategy and Implementation Plan (GESIP), a watershed moment in Kenya's sustainable development movement. GESIP sought to provide a roadmap for a "low carbon, resource-efficient, equitable and inclusive socio-economic transformation."

GESIP was the product of a consultative process involving public and private sector actors. It also had the input of development partners like the United Nations Environment Program (UNEP), African Development Bank (AfDB), Danish International Development Agency (Danida), World Wide Fund for Nature (WWF) and the German agency GIZ.

The blueprint has been cited as a key strategic foundation and seedbed for a number of national and local initiatives in the areas of sustainable socio-economic development and environmental conservation including the Sustainable Financing Initiative (SFI), under the Kenya Bankers Association (KBA). In short, GESIP provided fresh impetus for SFI activities.



(L-R) KBA Director of Public Affairs, Nuru Mugambi; Climate Bonds Initiative, Africa Program Manager, Olumide Lala; NSE, CEO, Geoffrey Odundo; CMA, Former CEO, Paul Muthaura; CBK, Governor, Dr. Patrick Njoroge and FSD Africa, Director, Mark Napier During the launch of the Green Bond Rules and Guidelines

Despite the Kenyan government's stated commitment to sustainable development (and by extension sustainable finance), there had always been distance between official rhetoric and action.

For instance, until 2019, Kenya did not have the legal instruments to effectively guide the issuance of Green Bonds, considered key to evolving a thriving, sustainable finance market. This gap was however bridged when the Capital Markets Authority issued the *Policy Guidance Note on Green Bonds*, in February 2019.

III. Industry Activities

A. Sustainable Banking Network



Mongolia Bankers Association Leadership sign an MoU with KBA and FMO - Dutch Entrepreneurial Bank. The partners committed to advance environmental and social risk management and sustainable financing practices for the Kenyan and Mongolian banking sector. Both KBA and Mongolia Bankers Association are members of the Sustainable Banking Network

The Sustainable Banking Network (SBN) aims at fostering collaboration among regulators, policymakers, banking associations, banks and development institutions to advance sustainable finance globally.

SBN was formed in 2012 by ten countries inspired by the vision to make the financial sector “a powerful instrument to reduce pollution, address climate change and restore vital environmental assets.”

Specifically, SBN seeks to encourage nations to transform their financial markets towards sustainability thus accelerating the sustainable development agenda. SBN is an effort to “promote continued adoption of sustainable finance across the global financial system.”

SBN is a platform for knowledge sharing and capacity building to enable members design and implement national sustainable policies and principles.

Kenya is a member of the SBN, having joined in 2015 through the KBA. By 2018, Kenya was among 13 member States that had instituted policies and principles to rally financial institutions to integrate sustainable finance into their business policies and operations.

As a member of SBN, Kenya is among nations that have embraced voluntary industry principles led by banking associations. All SBN members are actively promoting sustainable finance but are at different levels of progress.

Kenya is ranked at the emerging stage meaning it has policies and principles on sustainable finance in place and has begun implementing them. Other countries at the emerging stage are Mexico, Morocco, Peru, South Africa and Turkey.

The SBN global caucus has published various reports highlighting progress on several fronts. This includes adoption of an innovative measurement framework developed by the IFC and network members tracking the impact of various sustainable finance policies across member countries.

Countries’ sustainable policies and principles are assessed for environmental and social (E&S) risk management by banks including climate risk, green finance flows and enabling environment. Kenya is among countries whose sustainable finance policies and principles have a good E&S risk management coverage having also made climate commitments under the Paris Agreement on Climate Change.

The membership of SBN had grown to 38 by 2019 of which 22 had developed national sustainable finance policies.

The 2019 SBN Global Progress Report notes that Kenya is among countries that have moved from Preparation Stage to Implementation Stage, that is, from vision to practice. Within the Implementation Stage, four countries – Kenya, Mexico, Morocco and South Africa - moved from Developing to Advancing meaning they have launched additional guidance and implementation tools and provided evidence of adoption of these tools by local banks.

The Report further explains that SBN members identified three key pillars to an effective national sustainable finance framework.

Pillar 1 on Strategic Alignment (which replaced the previous Enabling Environment Pillar) is where countries whose national sustainable finance principles are aligned with global best practice tend to attract international investment.

Pillar 2 on Climate and Green Finance, calls for new financial products that address environmental, climate and social issues. Pillar 3 on Environmental and Social Governance (ESG) entails better management of ESG risks by banks leading to reduced credit risk.

Kenya has made notable strides in achieving Pillar 2 and 3. On Pillar 2 (Climate & Green Finance), Kenya was among countries that have published lists of green sectors and has issued green and sustainable bond guidelines.

On Pillar 3 (Environmental and Social Governance), Kenya has been recognized among countries that are providing incentives (financial and non-financial) for local financial institutions (banks) to integrate Environmental and Social Governance (ESG) integration into their practices.

B. Green Bonds Program - Kenya



(L-R) FSD Africa, Director, Mark Napier signs an MoU with KBA CEO Dr. Habil Olaka and NSE, CEO, Geoffrey Odundo during the Launch of the Green Bond Program - Kenya

The Green Bonds Program - Kenya (GBP-K) is an initiative bringing together Kenya Bankers Association (KBA), Nairobi Securities Exchange (NSE), Climate Bonds Initiative (CBI), Sustainable Finance Initiative (SFI), UK Aid, Financial Sector Deepening Africa (FSD Africa), and FMO, the Dutch Development Bank.

It is endorsed by the Central Bank of Kenya (CBK), Capital Markets Authority (CMA) and the National Treasury. The secretariat is hosted by KBA.

GBP-K was formed to accelerate the uptake of green bonds as a financial vehicle to tap into local and international capitals to finance green projects and assets.

The program was borne out of the realization that despite opportunities in green financing, investors still faced constraints including lack of policy support and limited information on bankable projects.



(L-R) FMO, Portfolio Manager, Marleen Jansen signs an MoU on behalf of FMO with NSE, CEO, Geoffrey Odundo and KBA CEO, Dr. Habil Olaka. FMO committed to fund the Green Bond Program - Kenya to catalyze the rise of a green bond markets



(L-R) NSE CEO, Geoffrey Odundo; KBA CEO, Dr. Habil Olaka and IFC representative sign an MoU. IFC committed to support the Green Bond Program - Kenya by providing technical assistance in the review of bank portfolios to determine climate aligned assets

GBP-K is also mandated to explore the potential of green investments and promote financial sector innovation through development of a green bond market.

With growing momentum for public and private sector efforts to build capacity for the Green

Economy through climate-friendly policies and practices, green bonds are viewed as an effective investment vehicle for mobilizing funds for low-carbon projects.

Development of a green bonds market in Kenya will allow investors and financial institutions including banks to deliver green investments thus contributing to economic growth and sustainable development.

Target sectors for climate finance in Kenya include energy, agriculture, transport, infrastructure, manufacturing, construction, water and waste management.

Key GBP-K deliverables include researching potential for green bond issuance in Kenya and developing a pipeline of green investments. The program is focused on mobilizing support from banks and leading corporates for green bond issuance while promoting Green Islamic Finance.

C. Roadmaps Towards Promoting Financial Inclusion for Persons with Disabilities

In 2020, the Kenya Bankers Association partnered with FSD-Kenya and inABLE to coordinate a Persons With Disability Digital Accessibility pilot study aimed at promoting financial inclusion for the important segment of the banking public. A first in Africa, the programme saw seven banks volunteer to have their digital service channels and products assessed: Absa Kenya, Standard Chartered Bank, Rafiki Microfinance Bank, Family Bank, Cooperative Bank, Equity Bank and KCB Bank.

The assessment culminated in the Banking Industry Persons With Disability Digital Accessibility Report and Case Study, which highlighted the challenges Persons With Disability encounter while accessing banking services. Further, the report provided wide-ranging recommendations to be implemented across the banking industry in Kenya to enhance the digital banking experience for PWDs.

Already adopted by the banking industry, the recommendations include ensuring that all banking areas are accessible by ramps as well as training security guards to recognize customers with disabilities

and enforce consistent queuing policies like aiding the customers to skip queues and directing them to the correct service counters. Further, the report recommends training of at least one staff member at every branch in basic sign language, besides providing annual training to enable specific strategies for making in-person services accessible to customers with disabilities.

On digital accessibility, the report advises banks to ensure that all websites, mobile applications, and written or electronic banking documents are accessible and consider using braille, large print, and accessibility for screen readers, as appropriate. Due to the concern that bank policies bar issuance of ATM cards to PWDs, the report asks the financial service providers to issue ATM cards to all customers with disabilities who want them, including customers with visual impairment.

In light of frequent changes in banking technology, the assessment recommends that banks should ensure customers with disabilities are informed about (and trained to use) new and emerging services, as well as, implement special counters for serving customers with

disabilities, complete with dedicated staff. In addition, the study recommends hiring of more employees with disabilities.

To fast-track the implementation of the recommendations, banks are required to provide roadmaps towards full digital accessibility outlining how they will ensure that their websites, mobile applications, and written or electronic banking documents will be accessible in line with internationally recognized best practices and accessibility standards. Due on March 31st 2021, the Bank PWD Digital

Accessibility Roadmaps should have clear timelines, action owners and required support from KBA.

In conclusion, commencing December 2020, all banks will observe International Day of Persons with Disabilities which is marked on 3rd December annually. The commemoration will create opportunities to promote financial services accessibility for PWDs during the month of December, celebrating customers with disabilities and taking stock on progress made towards ensuring PWDs are included in the financial system at both bank and industry level.

Overall Banking Experience	Hearing impairment	Visual impairment	Physical impairment	Total
The Bank Values Clients with Disabilities CWDs	48%	82%	84%	72%
CwDs can access banking services independently	57%	42%	80%	62%
The Bank understands CWD needs	33%	55%	66%	53%
The Bank respected by PWDs	14%	45%	53%	39%
Overall Positive Banking Experience	57%	82%	73%	72%

PWDs Feedback on Banking

IV. KBA SFI Activities

A. Catalyst Awards



Catalyst Awards 2018 Ceremony presided over by Principal Secretary, Julius Muia and KBA CEO, Dr. Habil Olaka. During the ceremony, KCB representatives received a trophy and a certificate recognizing their leadership in advancing Sustainable Finance practices in the financial services sector

The KBA Catalyst Awards is a platform for banks to showcase their work in improving the Environmental, Social and Governance performance of their business and the communities in which they operate.

Apart from celebrating top performers in this realm, the Awards also help to curate best practices in Sustainable Finance that peers can learn from and replicate.

The Awards are organized around the following Categories:

- Best Practice in Sustainable Finance
- Client Case Study/Financing Micro, Small and Medium Sized Companies
- Client Case Study/Commercial
- Bank Case Study: Bank Operations (Green Policy/ Green Bonds/ Green Headquarters)

Since 2018, the Catalyst Awards judges have noticed a shift from pure CSI programs to those at the very center of banks' core business. This implies that banks are increasingly moving away from past practice, when Sustainable Finance was seen as an extension of corporate philanthropy and social investment, to integration across bank operations including the banking hall and other consumer-facing avenues.

B. Industry Shared Value Reports

The Kenya Banking Industry Shared Value Reports attempt to capture the banking industry's positive contributions to Kenya's growth story, providing a useful repository of knowledge and insights for banks now and into the future.

The reports trace the SFI journey from inception of the Kenya Bank CEO Roundtable and formation of the Sustainable Finance Working Group, whose principal mandate was to prepare framework SFI principles in line with international best practice.



2015 Sustainable Finance Initiative CEO Roundtable at the United Nations, Gigiri

**OVER
120** ENTRIES
received by KBA from
progressive firms that integrated
the SFI-Guiding principles in
their lending practices

Since 2016, KBA has received over 120 entries from progressive firms that are integrating the SFI-Guiding principles in their lending practices.

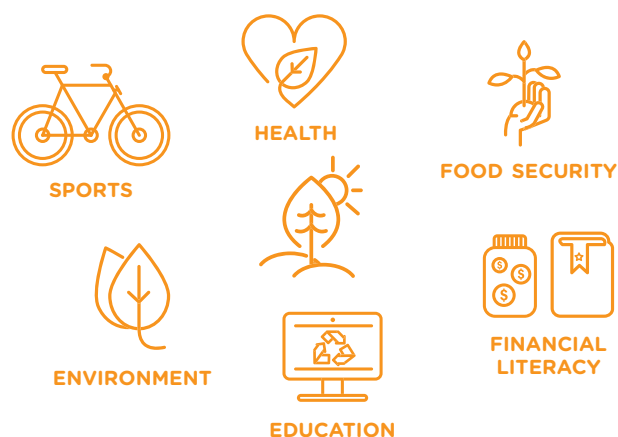
On its part, KBA has also tried to advance this philosophical shift through the Catalyst Awards. This is to ensure that banks live the Sustainable Finance Principles and Best Practice in all aspects their day-to-day operations and not just "once a year when they feel the need to assuage their consciences" without being particularly keen on the impact of their operations on the environment and society.

The key themes of Shared Value as captured in the reports published in 2013, 2015 and 2019 are banking industry impact on the economy; financial inclusion and promoting enterprise growth; and supporting growing communities.

On economic impact, apart from direct value added to the economy through lending to key sectors, the banking industry is a major contributor to the Exchequer.

On financial inclusion and promoting enterprise growth, the greatest impact has been felt at the small enterprise (SME) and household levels. Improving access to financial services through 'banking the unbanked' continues to empower people and communities to harness opportunities to improve social and economic wellbeing.

On social and environment impact, banks have invested heavily in community projects spanning education, health, environment, sports, food security and financial literacy.



In addition, the industry continues to implement various initiatives to unlock access to credit and support adoption of technology to enhance efficiency in financial transactions and access to banking services.

Other crucial milestones include formulation and adoption of the Sustainable Finance Initiative Principles and Guidelines and the introduction of the SFI e-learning platform in 2015.

C. E-Learning Platform

As part of capacity building for the SFI, the Kenya Bankers Association in 2015 hired ICT firm Farwell Consultants Limited to develop and manage an E-learning course designed to equip banking and finance professionals with a deeper grasp of sustainable finance and its application in the industry.

The SFI e-learning module has recorded impressive uptake since the platform went live in January 2016, with 33,225 out of a total 34,000 or 99 percent banking staff in the country having registered for the course between 2016-2020.

Of this, 27,485 or 83 percent have completed the course, while some 24 banks have 90-99 percent of staff enrolled in the course. Among the top performing banks in SFI e-learning are: NCBA, Bank of Africa, Diamond Trust, I&M Bank and Sidian Bank.

By May 2016, the platform had hit 10,000 users with the number doubling by September. The minimum number enrolling per day was 200, signifying huge interest, especially after some banks made it compulsory for their staff to register for the course. Staff enrolling for the course were drawn from retail, consumer, legal, IT & operations, internal audit, Treasury and customer service.

The momentum was sustained in 2017 with a surge in course uptake attributable to the race by banks to beat the calendar deadline. The top banks were recognized. In 2018, various features were added to the platform including a bank testimonials section. *The Vanguard* newsletter began being circulated.

Factors underpinning the steady uptake of the SFI course include technical support enabling quick onboarding and addition of new features as well as weekly reminders and alerts on new modules.

Some banks have adopted SFI as a mandatory training course for their staff, further underlining the importance they attach to building internal capacity in sustainable finance practice. There has also been notable upscaling of collaboration between the consultant and banks' IT sections to ensure an enabling environment for e-learning adoption.

The highlight of the e-learning program was the launch of the Green Bond Module in 2019. The

purpose of the module is to enhance trainees' understanding of the green bond market and the role of capital markets in financing solutions that meet the Sustainable Development Goals. This course is free for all banking staff and will go a long way in strengthening the industry's capacity in sustainable finance.

In 2019 the Green Bond Module went live and the back-end of the portal modified to allow direct access to course reports by HR managers. Last year, the e-learning platform hit a new milestone with over 30,000 registered users as at April. Also, new Case Studies were added, notably AMREF COVID-19 module as part of KBA's pandemic response initiatives.

Overall, the e-learning program has continued to record impressive growth both in uptake and course content, with notable impact in advancing the SFI agenda in Kenya's banking industry.

V. Milestones and Partnerships

The SFI journey in Kenya has benefited from the solid support of a number of development partners, without whose involvement, some of the critical milestones it has achieved would not have been possible.

One of the key milestones in KBA's SFI journey was the convening, in 2013, of the **Kenya Bank CEOs Roundtable**. Under this platform, bank CEOs were expected to demonstrate their commitment to sustainable finance in Kenya, by signing up for the initiative.



KCB Group CEO, Joshua Oigara together with CBA CEO, Jeremy Ngunze sign a placard to commemorate the launch of the Sustainable Finance Initiative in 2015

This followed the launch of **KBA's SFI** on December 1, 2012 at an event presided over by the Governor of the Central Bank of Kenya. Equally significant was the formation of the **Sustainable Finance Working Group**, which was to be domiciled at the KBA office. Drawing its membership from middle level management at the KBA member banks, this body would be responsible and accountable for promoting sustainable finance principles and practice among Kenyan banks.

In 2015, the KBA launched its **E-Learning Platform**, which has been one of the most successful components of its SFI program. Since launch to last year, the e-learning platform has recorded impressive uptake, with 33,225 out of a total 34,000 or 99 percent banking staff in the country having registered for its courses. Out of this, some 27,485 or 83 percent have completed their courses, while some 24 banks have 90-99 percent of their staff enrolled for the modules. The portal is delivered through a partnership with a firm called Farwell.



(L-R) Former NSE Commercial Director, Bahati Morara, SBA Principal Consultant John Kashangaki, WWF Regional Sustainable Investment Manager Jackson Kiplagat and Former KBA Director Research and Policy Jared Osoro during the launch of a demand study that sought to determine the green investment opportunities in the Manufacturing, Transport and Agriculture Sector

AGRICULTURE

Agriculture remains a key driver of Kenya's economy. But is also a major source of greenhouse gas emissions (GHG). According to the Kenya GHG emissions report, emissions in agriculture hit 32 million tons of carbon dioxide in 2015 compared to 23 million tons in 2000. This was projected to rise to 34 million tons in 2020.

E-Learning SFI program

33,225 out of a total **34,000**

or **99 percent** banking staff in the country having registered for SFI courses.

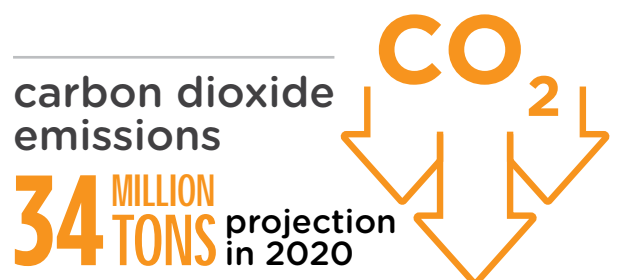
83% have completed their courses

24 BANKS

have **90-99 percent** of their staff enrolled for the modules.

In 2018, the KBA, working with World Wide Fund for Nature (WWF) as a key partner, disseminated the results of a landmark research, which sought, to quantify the green investment opportunity in Kenya, besides identifying the barriers to entry in the medium to long term.

The report was part of a three-part series based on a research titled "**Assessment of Green Investment Opportunities in Kenya**", and focused on three sectors of the economy; Agriculture, Transport and Manufacturing. It was the first time someone had ascribed a Kenya Shillings value to the sustainable finance opportunity in Kenya.



The agriculture sector was covered as part of a study called “Assessment of Green Investment Opportunities in Kenya” conducted by the Green Bonds Program –Kenya in partnership with the World Wildlife Fund (WWF) Kenya.

Key sources of GHG emissions within the sector such as deforestation, livestock and waste management were singled out as key focus areas for green investment and financing. Short-term opportunities are estimated at \$35 million per year rising to \$180 million within the decade.

The Report notes the paltry bank financing for climate smart projects at about 3.5 percent of total bank loans to agriculture sector. Yet there are significant opportunities for Small and Medium Enterprises (SMEs) to invest in each of the above areas under a green financing model. This signifies headroom for banks to expand lending to SMEs through sustainable finance products.

The study also explored funding requirements for various sub-sectors. For example, for forestry sub-sector \$7 million is required over the next 5 years for projects like tree nurseries. Livestock requires \$75 million annually for climate-smart ventures targeting hay farming and animal feeds. Sustainable aquaculture involving production of fingerlings is also high potential.

Agro-input sub-sector has created opening in manufacture and sale of organic pesticides and improved seeds. For waste to energy, green entrepreneurs could thrive in production of biogas and organic fertilizers requiring funding of up to \$45 million a year. Irrigation sub-sector requires \$5 million annually. Drip irrigation systems are in demand.

However, the study zeroed in on a few challenges in green funding this sector. First, selling climate-smart approaches to smallholder farmers is likely to be met with skepticism. Moreover, farmer education and extensions services require significant capital outlay.

Risk perception of the sector looms large acting as a barrier for many entrants. Government subsidies also discourage investors as do competing cheap imports.

To tackle these challenges, the Report recommends hybrid financing – grant, equity, early stage and commercial banking – is needed to catalyze investments and address risk elements in the sector. Smallholder farmers should be accorded priority in access funding to enable them adopt new technologies.

Government should also provide tax and other incentives for private companies to invest in green bonds.

In Agriculture, the study identified opportunities worth \$35 million, with this number expected to rise to \$180 million within the next 10 years.



MANUFACTURING

Manufacturing accounts for 13 percent of bank lending in Kenya totaling Ksh272 billion in 2017 when the study was conducted, signaling scope for green financing with the right mix of policies and incentives.

The study earmarked 5 focus areas for green financing opportunities namely:



The study further identified barriers to issuance of Green Bonds in the manufacturing sector. These include limited knowledge among potential issuers of what constitutes green projects; lack of comprehensive data on green projects in the sector; non-involvement of tier 1 banks in green project financing; perception that such projects are risky especially renewable energy and waste management.

Among the recommendations in the report were:


- Encourage established manufacturers to issue green bonds to fund energy efficiency upgrades, renewable energy, waste to energy systems, among others.
- Promote multi-stakeholder partnerships to drive a robust and viable pipeline of deals while mitigating risks.
- Establish a pooled fund to support bond issues and allow for aggregation of small but viable projects
- Develop harmonized policies and regulations targeting specific areas e.g. waste management

TRANSPORT

The transportation sector was cited as the second largest source of carbon dioxide (CO₂) emissions at roughly 14 percent due to heavy reliance on fossil fuels. In terms of climate investment opportunities, the sector shows huge potential. A review of investment opportunities in Kenya in the medium and long-term showed \$550 million (Ksh50 billion) worth of projects.

14% carbon dioxide (CO₂) emissions due to heavy reliance on fossil fuels.

\$550 MILLION medium and long-term investment opportunities in Kenya



The study revealed the highest impact projects will largely be in the Light Rail and Bus Rapid Transit systems being funded by government and development partners. The large size of such projects creates an opportunity for government-backed green bond to finance them.

Other green investment opportunities in the transport sector, though on a lower scale, include the highly popular ride hailing services and logistics management technologies. Others are situated in the adoption of cleaner fuels.

However, the study noted several constraints such as uncertain political goodwill underpinning mega-transport projects not to mention funding challenges. Regulatory uncertainty is also a major challenge.

The study recommended that high impact projects such as BRT and city rail be expedited to enable the country reap the benefits in reduced carbon emissions owing to large shift away from motorized transport. In addition, the government should consider incentives such as tax rebates on imported electric cars and vehicles using biofuels. Another proposal is issuing special Green Bonds for such projects.

The study concluded that there was a significant opportunity for public-private partnership in green financing in the transport sector, which accounts for a sizeable environmental footprint owing to high carbon dioxide emissions.

VI. The Successes



H.E. the President of the Republic of Kenya, Uhuru Kenyatta leads a delegation in the Listing of Acorn Holdings Green Bond in London Stock Exchange

The successful issuance of the Acorn Holdings' Green Bond, the region's first in 2019, was evidence that Kenya's operational and regulatory environment is ready for the actualization of sustainable finance instruments and transactions. The issuer of the bond cites technical support from the GBP-K and regulatory support from the CMA and the National Treasury, as some of the factors that led to the issue's landmark success.

Through the KBA SFI, the Association has, since 2012, brought together the "right mix of stakeholders" to champion the Sustainable Finance agenda in Kenya. This coalition of stakeholders includes not just KBA's member banks, but also regulators,

Development Finance Institutions (DFIs) and other organizations whose mandates intersect with the Sustainable Finance agenda. They have been playing a critical advocacy role in the establishment of the right operational and regulatory environment for Sustainable Finance.

The promotion of Sustainable Finance in Kenya has also benefited from active government support as a critical enabler. This has been seen in the formulation of supportive strategic blueprints like GESIP. The establishment of a special unit within the National Treasury that deals with sustainable development issues is indicative of this active support. Regulators have also played an active part

in pushing the agenda of sustainable development and finance. For instance, the CMA issued the *Policy Guidance on Green Bonds*, which was critical as an operational compass in the issuance of Kenya's first Green Bond by Acorn Holdings. The CBK Governor is the patron of the GBP-K, and the regulator is a key supporter of the program. A key and enabling policy decision taken by the National Treasury was to remove withholding tax on interest earned by investors in Green Bonds.

The Sustainable Finance agenda in Kenya is likely to benefit, going forward, from a growing pool of better qualified professionals. Through the KBA's E-Learning Platform, for instance, over 33,000 bank workers have been trained on a number of modules, including one that deals with the subject of Green Bonds and includes Case Studies from other markets.

VII. Challenges

A Sovereign Green Bond would act as a stamp of approval and provide new impetus to the growth of ESG-conscious investment opportunities in the country. While there have been several undertakings by the government to issue a Sovereign Green Bond, this is yet to be realized.

In the 2020/1 Budget Statement, for instance, the Finance CS said:

“In order to minimize the adverse effects of this phenomenon (climate change) on the economy, we need to pursue a green economic development path. In this regard, the National Treasury proposes to tap into the Green Climate Financing by issuing the first “Sovereign Green Bond” to finance major infrastructure projects in FY 2020/1.”

There is hope among stakeholders in Kenya's financial market that this will be prioritized once the shocks occasioned by the COVID-19 pandemic are dealt with.

While a lot has been achieved in growing Kenyan capacity in the practice of Sustainable Finance, some gaps have been identified. One such gap is a paucity of local and homegrown talent in asset verification. In the case of the Acorn Green Bond, for instance, the issuer relied on expertise from CBI



KBA Director of Public Affairs, Nuru Mugambi engages members of the Kenya Green Building Society to create awareness of the value proposition the issuance of green bonds

to evaluate its assets and determine their suitability as “green assets.”

Most of the capacity building in Kenya's Sustainable Finance space has been concentrated on the supply side; with bank employees being the major beneficiaries, through initiatives such as KBA's E-Learning Platform. Respondents interviewed for this report voiced a need for awareness creation among investors too. This will result in a pool of investors with clear ESG mandates, beyond the current pool, which is largely composed of sophisticated and mostly foreign, investors. Such efforts should also not spare the consumer public. The logic here is that demand for ESG-conscious products and services will push investors to put their money in such businesses. It will also make such investments profitable.

VIII. Future Outlook

With the Acorn Holding Green Bond issue in October 2019 and the removal of the law capping bank interest rates in the same year, the perception in the financial markets was that Kenya was ripe for a busy Green Bonds' pipeline. But the advent of COVID-19 and its disruptive effects on the economy and businesses' strategic priorities effectively put paid, albeit temporarily, to such ambitions.

Workers, the pool from which banks and other businesses draw their customers, were heavily hit by pay cuts, layoffs and disruptions in supply chains, greatly diminishing their disposable incomes.

Would-be issuers revised their strategic posturing from growth to survival.

Any planned issues and transactions in the area of Sustainable Finance, going forward, will depend on how fast the general economy can recover from the effects of COVID-19 and go back to its previous settings in mid-March 2020, when the first case of COVID-19 was reported in Kenya. The rollout of the planned national vaccination drive by the government of Kenya through the Ministry of Health, will be a critical indicator.

Case Study Review

I. M-KOPA and CBA



M-KOPA is a Kenyan-based tech start-up behind an innovative concept of selling solar-powered battery packs to low income, mostly unbanked households, on a pay-to-own instalment basis. CBA (now known as NCBA following the 2019 merger with NIC Bank) is one of the largest privately owned banks in Kenya.

In 2013, CBA made a bold decision to avail a debt facility to M-KOPA despite the latter's high-risk

profile, characterized by its unprecedented business model, short track record and lack of tangible assets to serve as collateral. In addition, M-KOPA was an unknown player in an unproven industry space and hardly ticked any box in the conventional criteria for commercial lending.

Yet, M-KOPA had soon after launching in 2011 recorded early success and growth while attracting international acclaim for its social enterprise model, including two IFC/FT awards for sustainable finance in 2013. But rapid growth was constraining the firm's working capital thus imperiling its ability to meet customer demands. Attempts to obtain additional funding from both social investors and commercial lenders were futile.

M-KOPA turned to CBA for two reasons. First, M-KOPA was a CBA customer thus having a financial history and relationship with the bank. Second, all M-KOPA transactions with customers took place on the M-Pesa mobile money platform directly interfaced with M-KOPA's CBA account.

Being so CBA was well versed with M-KOPA's financial position significantly de-risked the lending proposal during due diligence. Moreover, data on M-KOPA's historical performance revealed that the firm's current and future cash flows might act as alternative collateral for the loan.

The bank decided to lend 20 percent of the \$10 million M-KOPA was seeking to raise, at a favorable 16 percent interest rate, on condition that CBA would have unfettered access to M-KOPA's automated system. The rest of the funding was to come from external impact investors.

The key lesson from the M-KOPA-CBA partnership is that with innovative approaches, there is a big opportunity for sustainable finance transactions that balance between a bank's credit risk procedures and desire to increase their loan book and market share, and its contribution to sustainable development by financing products and projects that have a direct, positive social and environmental impact.

II. Standard Chartered Bank and Uhuru Flower Farms



In 2013, Standard Chartered Bank (SCB) approved a 3-year loan facility to Uhuru Flower Farms to acquire a solar system as a part of measures to reduce runaway energy costs and improve reliability of the power supply.

Prior to installing the system, the flower farm suffered recurrent stock loss due to frequent power outages and weak voltage despite incurring Ksh500,000 in monthly electricity bills. Flower farm greenhouses depend on electricity to power irrigation, ventilation and cold storage systems. Energy can account for 60-70 percent of total recurrent costs.

Uhuru Flower Farms approached SCB for a Ksh15 million loan facility for the solar plant installation. This being a new area (renewable energy), the bank was keen on understanding how the loan would

improve business performance and ability of the client to repay the loans. These criteria were met and SCB advanced a Ksh10 million facility with the flower producer required to raise the balance.

As a result, Uhuru Flower Farms was able to achieve 50 percent savings on their previous power bills, recording no further stock losses due to power outages. The success of the project has led to other flower producers seeking funding from other financial institutions to install similar systems.

The key learning here is that there exists significant opportunity for Kenyan banks to expand their lending portfolio through financing climate-friendly commercial projects.

With Kenya as a major producer of cut flowers globally, SCB's financial support not only ensured Uhuru Flower Farm's business sustainability but indirectly safeguarded jobs and Kenya's flower exports.

This case also shows that while innovation may be driven by clients seeking first-mover advantage, banks need to find ways of packaging new products to cater for evolving customer needs.

III. Acorn Holdings Africa Green Bond



Stakeholders during the commemoration of the first corporate green bond in East Africa that was issued by Acorn Holdings and structured by Stanbic Bank with Backing by GuarantCo and Helios

The Acorn Holdings' Green Bond, which was issued on October 3, 2019, is the first and (still) only such security to have been issued in the Kenyan and East African markets.

Through the pioneering issue, the real estate developer was able to raise KSh4.3 billion, against a minimum target of KSh2 billion, for the construction of six to eight environmentally-friendly accommodation for students in Nairobi. The buildings were benchmarked against international green building standards for water, energy and construction with the aim of achieving low operation costs and a low carbon impact in the long term.

Being a first mover, the issue also provided the first real test for Kenya's regulatory framework for Green Bonds. Only eight months earlier, the Capital Markets Authority had issued its *Policy Guidance Note*, providing the legal framework under which the Acorn Holdings GB was conceptualized and taken to market.

Acorn was able to get the cash it needed, initially drawing a total of KSh1.7 in two tranches. The issue was also successfully listed on the NSE and the London Stock Exchange in January 2020, capping a successful program.

The Acorn Green Bond, a fixed rate, five-year paper, was certified by the Climate Bonds Initiative (CBI). A senior, secured, rated and guaranteed issue, the issue had several factors rooting for it. It was a *restricted public offer*, meaning that its investor

catchment was limited to targeted, sophisticated investors only.

Other participants in the issue included GuarantCo, a Private Infrastructure Development Group (PIDG) company, played a key role in the issuance, providing investors with a partial credit guarantee on half of the principal and interest due under the KSh5 billion note. The property in question also acted as security making the instrument fully secured. Moodys provided credit rating services for the Green Bond, while monitoring and evaluation was contracted to MaceYMR, an independent technical advisor.

The targeting of elite, sophisticated investors, especially those with ESG mandates, worked for the Acorn Green Bond. Key investors included Kenyan pension schemes, commercial banks, insurance and reinsurance companies and a DFI (Development Finance Institution). Emerging Africa Infrastructure Fund (EAIF), a PIDG firm like GuarantCo, was the biggest investor in the Green Bond program, taking up a position worth KSh1.297 billion.

Another factor behind its success, which has sharpened the property developer's appetite for a future issue to finance an active pipeline of student housing, was its attractive return of 12.5 percent per annum, way above other investment options. The issuer cites positive support from the regulators, especially the CMA which provided clear guidelines and the National Treasury, which gave the issue a much-needed tax exemption. Technical support for the issue came from the GBP-K.



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