

# Green Bonds Programme

— KENYA —



REPUBLIC OF KENYA



THE NATIONAL TREASURY



CENTRAL BANK OF KENYA





## Green Bonds Programme – Kenya

The Green Bond Programme – Kenya will be coordinated by Kenya Bankers Association (KBA), Nairobi Securities Exchange (NSE) and Climate Bonds Initiative (CBI) in conjunction with the Sustainable Finance Initiative. The Green Bond program is endorsed by the Central Bank of Kenya, Capital Markets Authority and National Treasury.

### Partners:



**nairobi securities exchange**  
Discover Opportunity



**Sfi**  
Sustainable Finance Initiative



**KENYA BANKERS ASSOCIATION**



### Government Affiliates:



### Green Bond Programme – Kenya Project Plan

The Green Bond Programme – Kenya will focus on the following work streams and outputs to support the issuance of the first Kenyan green bond and the development of a domestic green bond market:

1. Researching the potential of green bond issuance in Kenya
2. Developing a pipeline of green investments and engaging with local and international investors
3. Supporting demonstration green bond issuance from leading banks and corporates
4. Promoting green Islamic finance
5. Developing a pool of Kenya-based licensed verifiers
6. Development of a cooperative fixed income fundraising facility that would allow smaller banks and corporates to also take advantage of wholesale debt capital markets
7. Leveraging the Kenya experience to catalyze similar programs across East Africa Community

### Contacts:

The Secretariat is hosted by the Kenya Bankers Association supported by the Climate Bonds Initiative.

#### **Mr. Sean Kidney, Climate Bonds Initiative**

Phone: +44 75 2506 8331,  
[sean@climatebonds.net](mailto:sean@climatebonds.net)

#### **Ms. Nuru Mugambi, Kenya Bankers Association**

Phone: +254 20-222-1704 / 0+254 0-222-4014  
Ext. 205. Cell: +254 717023318, [nmugambi@kba.co.ke](mailto:nmugambi@kba.co.ke)

# Green Bonds: Its Time for Africa



**A**frican countries are gaining momentum to align with the burgeoning activity within the Green Finance space. Countries such as Kenya, Nigeria, Morocco, Egypt and South Africa have taken a concerted effort to establish standards, harmonise the public and private sector efforts as well as build capacity within the green economy.

Each country is a success story in its own right. South Africa leads in green investment innovation; and Nigeria was the first country where the Central Bank issued a directive on sustainable banking principles. The Kenya Bankers Association (KBA) leads on the Continent for having the largest bank-led industrywide program centred on market engagement and capacity building. Meanwhile, the Nairobi Securities Exchange (NSE) is spearheading several innovative mobile-based products and promoting sustainability in the capital markets in conjunction with its role as a member of the Sustainable Stock Exchanges (SSE) Initiative.

## A Window of Opportunity in Kenya

**K**enya is the most economically advanced country in East and Central Africa. The country's economy is diversified with agriculture being a major contributor and others such as manufacturing, energy, banking and finance, tourism, telecommunications, transport, and building and construction being key economic drivers. Moreover, Kenya is the third largest market in Africa in terms of capitalization, after South Africa and Nigeria. To promote sustainability within the capital markets, Kenya's Capital Markets Authority (CMA) has established a Code for Corporate Governance with provisions for integrated reporting. CMA also introduced a Stewardship Code which provided for sustainable investment principles amongst Kenya's institutional investors.

Kenya's Vision 2030 and Constitution (2010) underscores the need for equitable and sustainable economic growth. The Constitution recognizes clean and healthy environment as a basic human right and provides for sustainable



*Towards a globally competitive and prosperous nation.*

### Kenya's Top Trading Partners





# A Window of Opportunity



## Target sectors for climate finance in Kenya include:

- energy
- agriculture
- transport
- infrastructure
- manufacturing
- building & urban planning
- water & waste management



exploitation, utilization, management and conservation of the environment and natural resources. On the other hand, Kenya Vision 2030 aims at achieving an annual growth of 10 percent per annum and transforming Kenya into a globally competitive and prosperous country. Vision 2030 also introduces the establishment of the Nairobi International Financial Centre which will seek to attract foreign investment for development.

Developing a Kenyan green bonds market will therefore support Vision 2030 and allow domestic banks and corporates to better deliver green investments in Kenya – renewable energy, low-carbon transport, water infrastructure, sustainable agriculture and more. Towards catalysing such investment with regard to the green economy, the Kenya Bankers Association and Nairobi Securities Exchange have established a collaboration towards developing a local and regional green bond market. The partnership is endorsed by the Central Bank of Kenya (CBK) and Capital Markets Authority with the CBK Governor serving as the patron of the initiative.

# in Kenya



Additionally, the National Treasury in conjunction with the Green Economy Strategy and Implementation Plan (GESIP) has outlined policies towards directing public sector investment towards the green economy. The National plan also includes raising a Sovereign Green Bond. Meanwhile, the IFC (World Bank) has identified Kenya as one of the 24 countries that will benefit from its maiden Green Bond Cornerstone Fund.

Therefore, there are several opportunities towards developing the Green Bond Market in Kenya, namely:

- Collaborating with the national government on policy reform towards promoting investment through green instruments and market innovation
- Supporting county governments to raise

awareness, build capacity and work with financiers to raise capital for green investment

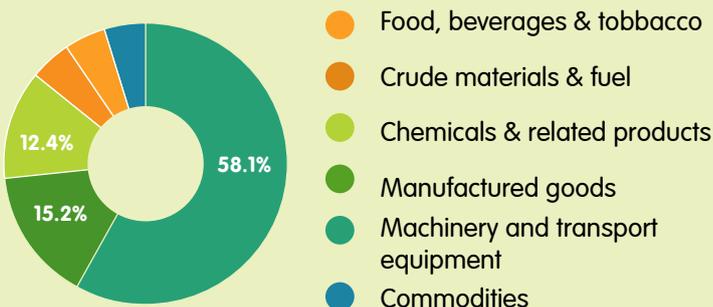
- Supporting banks to structure and bring a green instrument to market
- Supporting corporates to issue green instruments to the market
- Industry level intervention and mobilisation of capital through a special fund by the Kenya Bankers Association

In addition, numerous programs supported by United Nations including the Sustainable Development Goals (SDGs) and other bilateral agencies, civic organisations, donors and development finance institutions can be leveraged. These are in addition to burgeoning academic activity which are aimed at reinforcing Kenya’s unique position as a centre of excellence in Africa for sustainable finance.

## SWOT Analysis: Investing in Kenya

<p><b>Strengths</b> Good telecommunications and financial services.</p>	<p><b>Weaknesses</b> Inadequate infrastructure.</p>
<p><b>Opportunities</b> Strategic position between West Africa and East Africa. Emerging middle class.</p>	<p><b>Threats</b> Agricultural production highly dependent on weather conditions.</p>

## Kenya’s Trade with the UK



Source: British Chamber of Commerce

## Sector Segmentation Growth

### Sectors to watch:

- Tourism
- Telecommunications
- Wholesale and retail trade
- Banking
- Business Process Outsourcing

# FACT SHEET

January 24, 2017

# Kenya Economic Outlook

Source: Focus Economics, © Copyright 2017



Recent data confirm that Kenya's economy was one of the star performers in the region last year with growth rates above 5.0% in the first three quarters of the year. GDP expanded 5.7% on an annual basis in Q3, which was a deceleration over the previous quarter's impressive growth rate, but still corroborated the economy's strong performance. Economic activity was supported by expansions in all sectors, with services and mining and quarrying leading the way. Nevertheless, downside risks remain. The interest rate cap introduced by the government in September of last year has so far had a negative impact on credit growth in the already stressed private sector. Bank lending to the private sector has slowed considerably in recent months, compared to the double-digit increases recorded in 2015. This, coupled with the uncertainty surrounding the presidential elections in August, has affected business sentiment as investors take a wait-and-see approach.

Public investment, loose monetary policy and closer integration in the East African Community will support Kenya's economy in 2017. However, rising political uncertainty regarding presidential elections will put pressure on growth. On balance, FocusEconomics panelists see the economy growing 5.8% in 2017, which is unchanged from last month's estimate. In 2018, the panel sees GDP growth at 6.0%.

## Kenya Facts

	Value	Change	Date
Bond Yield	14.02	0.11%	Feb 16
Exchange Rate	103.7	0.09%	Feb 16
Stock Market	1.6	0.00%	Feb 10

Source: Focus Economics, 2017

## Kenya Economy Data

	2011	2012	2013	2014	2015
Population (million)	39.5	40.7	41.8	42.9	44.1
GDP Per Capita (USD)	1,056	1,243	1,318	1,424	-
GDP (USD Bn)	41.7	50.6	55.1	61.1	-
Economic Growth (GDP, annual variation in %)	6.1	4.6	5.7	5.3	-
Consumption (annual variation in %)	6.3	5.8	8.2	5.5	-
Investment (annual variation in %)	4.7	12.9	1.6	11.2	-
Industrial Production (annual variation in %)	5.3	4.1	5.3	5.3	-
Fiscal Balance (% of GDP)	-5.5	-6.0	-6.8	-7.1	-
Public Debt (% of GDP)	39.9	42.1	44.6	46.3	-
Money (annual variation in %)	14.1	17.2	13.8	18.6	12.4
Inflation Rate (CPL annual variation in % eop)	18.9	3.2	7.2	6.0	8.0
Inflation Rate (CPL annual variation in % )	14.0	9.4	5.7	6.9	6.6
Policy Interest Rate (%)	18.0	11.0	8.5	8.5	11.5
Exchange Rate (vs USD)	85.10	86.00	86.45	90.55	102.3
Exchange Rate (vs USD, aop)	88.89	84.53	86.13	87.95	96.27

Source: Focus Economics, 2017

eop = end of period, aop = average of period

# About the Sustainable Finance Initiative



Commercial banks in Kenya guided by the industry umbrella body Kenya Bankers Association is on a journey towards balancing their immediate business goals with the economy's future priorities and socio-environmental concerns.

By establishing the Sustainable Finance Initiative (SFI) in 2012 and defining and adopting the SFI Guiding Principles and Minimum Standards on 1st December 2015, Kenya's banking industry follows in the footsteps of other countries, including Nigeria, India and South Africa, which have had initiatives either spearheaded by regulators or banks to promote sustainable development.

The SFI Principles are grounded in three main priorities, namely, equipping the financial services sector to perform optimally in the area of comprehensive risk management; enhancing business practice, leadership and governance; and promoting industry growth and development by fostering a culture of innovation and inclusivity enabled by new technology.

The SFI is endorsed by the Central Bank of Kenya and Capital Markets Authority. Notable achievements include:

- Through a rigorous stakeholder engagement process, including the banks and the regulator, the Principles were developed and adopted by the banking industry in March 2015. The Principles were



formally launched on 1st December 2015 by the Central Bank of Kenya Governor, Prof. Patrick Njoroge.

- KBA in partnership with IFC/World Bank, facilitated face-to-face training of bank credit risk managers, and the identification and certification of 35 local consultants. The training which focused on environmental and social risk management as defined by the IFC Performance Standards was covered in five months, between September 2015 and March 2016.

**Dr. Patrick Njoroge,**  
Governor, Central Bank of Kenya

"Vision 2030, Kenya's development blueprint, gives prominence to infrastructure development as a key driver of long-term growth. In recognition of the important role the private sector can play, the Government is committed to creating an enabling environment to facilitate private participation."



**Paul Muthaura,**  
CEO, Capital Markets Authority

"With Kenya being at the forefront of innovation and evolution of mobile-based financing solutions, we have the opportunity to move beyond the simple pursuit of inclusion with regard to the storage and transmission of money by phone to linking these solutions to facilitating the achievement of the Sustainable Development Goals."



## Priorities



**Comprehensive Risk Management**



**Business Practice, Leadership & Governance**



**Growth through Inclusivity, Innovation & Technology**

## Sustainable Finance Guiding Principles

**ONE** Financial Returns versus Economic Viability

**TWO** Growth through Inclusivity and Innovation

**THREE** Managing and Mitigating Associated Risks

**FOUR** Resource Scarcity and Choice

**FIVE** Business Ethics and Values

## Contd. - SFI Milestones

- KBA partnered with DEG and FMO to develop a course for all bank employees. KBA also designed the e-learning platform which provided the platform for the coursework. To date more than 24,000 bank employees have interacted with the platform with more than 20,000 completing the six-module coursework which has been certified by IFC, UNEP-Finance Initiative, DEG and FMO, and reviewed by Cambridge University.
- In February 2016, KBA introduced the Catalyst Awards to recognize and promote banks and other financial sector players that demonstrate the SFI Guiding Principles. The program received 33 entries with the winners being awarded in October 2016 by the CEO of the Capital Markets Authority.
- SFI convenes an annual CEO Roundtable on Sustainable Finance. In June 2016, the 3rd CEO Roundtable on Sustainable Finance was co-hosted with the UN Environmental Program and focused on aligning the financial sector with the UN Sustainable Development Goals.



“**Jeremy Ngunze,**  
*Kenya CEO, Commercial Bank of Africa*

“Everyone will agree that sustainable finance is the new paradigm... There is opportunity in the green economy. Great opportunity, to take advantage of innovations that drive access of capital to the micro level.”



“**Geoffery Odundo,**  
*CEO, Nairobi Securities Exchange*

“At the NSE, sustainability is a critical agenda. We joined the Sustainable Stock Exchange Initiative last year and part of that was basically to ensure that NSE as a company takes this as one of its core initiatives. Secondly, to promote the sustainability initiatives within the listed companies.”



“**Peter Odhengo,**  
*National Treasury Senior Policy Analyst, Climate Change*

“National Treasury is soon launching a Climate Finance Policy, which is going to operationalise the Kenya Climate Change Act which was accented by the President and became operational on the 27 of May (2016), and the Paris Agreement which is also going to be mandatory for Kenya to comply with starting in 2017.”



“**Achim Steiner,**  
*Former UNEP Executive Director*

“You (Kenya Bankers Association) are in many respects, pioneers who are driving conversations today about what it means to align a financial system with the overarching development priorities.”

