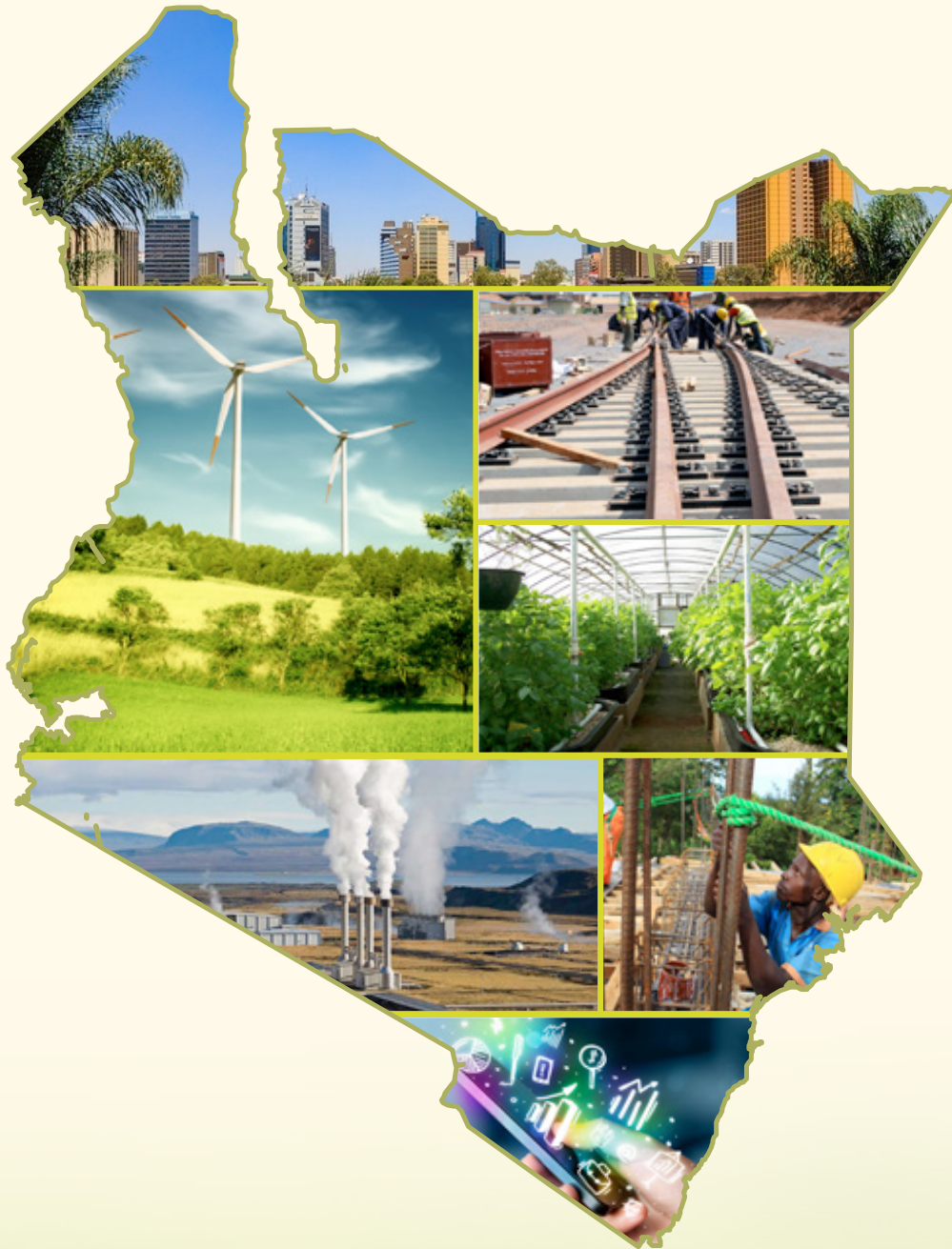




**Green Bonds  
Programme**

— KENYA —

# ANNUAL REPORT 2017-18





*"The green economy is our way of planting coconut trees from which we will never eat. We need to invest in the green economy to ensure that future generations inherit a world better than what we found. Kenya needs investment to support green economy activities in areas such as afforestation, renewable energy and public transport. As a leader in financial sector innovation, raising Green Bonds - and putting in place the incentives we need to encourage uptake - is one way to finance these important "green" projects, which will make a sustainable contribution to building a prosperous economy."*

**Dr. Patrick Njoroge**

Governor of the Central Bank of Kenya  
Patron of the Green Bonds Programme Kenya

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*"It is expected that this programme will improve access to a complementary source of longer-term capital alongside traditional, shorter term bank loans, while contributing to the financing of "green" investments and improving the environment. It will further support the national agenda that seeks to reinforce Kenya's role as a regional leader in financial services as articulated by Vision 2030 and Kenya's Green Economy Strategy and Implementation Plan (GESIP)."*

**Mark Napier**  
Director, FSD Africa





# The Global Rise of Green Bonds and the Kenyan Opportunity

Globally the green bond market has grown tremendously in recent years, with issuances totalling \$155.5 billion in 2017 and an estimated \$250-\$300 billion in 2018<sup>1</sup>. The US, China and France accounted for 56 percent of total issuance and there were ten new green bond sovereign issuers in 2017<sup>2</sup>. Investor demand for green bonds is getting stronger due to increasing evidence that “green” factors have a positive impact on long-term financial returns. Green bonds therefore address the dual objective of earning good financial returns, while investing in the emerging green opportunities and transitioning to environmentally sustainable economic growth.

Kenya’s economy is highly dependent on its natural resources with more than 50 percent of the country’s GDP attributable to sectors that are directly or indirectly

reliant on natural resources, including agriculture, forestry, energy, manufacturing and tourism. As a consequence of climate change, extreme weather events cost the Kenyan economy as much as \$500 million per year or 1 percent of the annual GDP, a figure that is set to increase.<sup>3</sup>

*“Green bonds offer easy access to a large and diverse funding pool, providing a source of low-cost and much-needed capital to finance infrastructure projects and set up green funding programmes”*

**Paul Muthaura**

CEO of the Capital Markets Association

Kenya’s Vision 2030, the Kenyan Constitution and the UN’s Sustainable Development Goals articulate the importance of promoting a clean and healthy environment. Moreover, the Kenya Green Economy Strategy and Implementation Plan (GESIP) 2016–2030 has committed to investing \$23.5 billion in Kenya’s green growth path. Following the foundations laid

by the Green Bonds Programme Kenya, the National Treasury has indicated that its debut sovereign green bond will be issued during the fiscal year 2018/19. This will make Kenya the first country in East and Central Africa to issue a green bond.

<sup>1</sup> Climate Bonds Initiative (2017) a London-based non-profit organisation which certifies the green credentials of bonds.

<sup>2</sup> Argentina, Chile, Fiji, Lithuania, Malaysia, Nigeria, Singapore, Slovenia, Switzerland and the United Arab Emirates

<sup>3</sup> Kenya National Climate Change Action Plan

# Introduction: The Green Bonds Programme Kenya

The Green Bonds Programme Kenya (GBPK) was launched in March 2017 with the aim of catalysing the market for green bonds. The programme's patron is the Governor of the Central Bank of Kenya and is a partner initiative between Kenya Bankers Association (KBA), Nairobi Securities Exchange (NSE), Climate Bonds Initiative (CBI), Financial Sector Deepening (FSD) Africa and the Dutch Development Bank (FMO). The programme is endorsed by the Central Bank of Kenya (CBK), the Capital Markets

*"The Exchange is committed to developing a vibrant green market for this region; we aim to create an environment that will allow the market to prosper in a secure and transparent way. Through the NSE, issuers and investors will have a platform where they can come together and fulfil their green objectives. The Green Bonds Programme Kenya is an innovative tool that will promote economic and climate resiliency for our country."*

**Geoffrey Odundo**  
The Chief Executive of NSE

Authority (CMA) and the National Treasury. In the recent past, these partners have come on a sustainability journey which has led them to collaborate more proactively to build a green bond market in Kenya. For instance, the NSE has been an active member of the Sustainable Stock Exchange (SSE) Initiative and KBA has been championing the Sustainable Finance Initiative in the banking industry. Working together on this programme all partners recognise the outcomes will be larger and more sustainable – leading to a green economy for Kenya's future generations.

During its first year of implementation, the programme has pursued six work streams simultaneously designed to support the first of many green bond issuances. These six work streams have focused primarily on four areas of intervention.

## Areas of intervention

### Technical support for issuers

the programme has sensitised potential issuers and provided technical support towards green bond issuance.

### Training programmes and roundtables

the programme has developed an innovative curriculum for an e-learning platform, alongside training programmes for issuers and local verifiers.

### Regulation and Policy

the programme has engaged with regulators and policy makers to develop the listing framework and incentives for green bond issuance and investment.

### Research

Further detailed research on the demand for green financing and the potential for green bond issuance and investment in Kenya.

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*"We are very pleased and excited to announce this partnership. This alliance has given us the opportunity to work closely together as a sector in developing Kenya's green finance market through the Green Bonds Programme. One of KBA's main objectives is to develop and sustain best practices that will inevitably strengthen financial structures in Kenya. FSD Africa, FMO, IFC, CBI and the NSE have all focused over the years on growing sustainable finance practices in the financial sector and this strongly complements our objective."*

**Habil Olaka**  
CEO of KBA  
During the GBPK launch

# Progress & Impact

Over the past year, the programme has made good progress towards stimulating the market for the first green bond issuance in Kenya. The programme's main achievements over the past year are summarised below.

## Technical support for issuers:

**20**  organisations engaged with technical support

for potential green bond issuance, and development of a pipeline of green bond issuers



Led by FMO, concluded a feasibility study for a **Pooled Fund Facility** to allow smaller banks to take advantage of wholesale debt capital markets



## PORTFOLIO REVIEW

for four Kenyan banks by the International Finance Corporation (IFC).

## Research:



Commissioned studies into **green investment opportunities** in three key sectors of the **economy** 



agriculture



transport



manufacturing

## Training programmes and roundtables:

**3** peer-to-peer learning sessions

**14**  events attended by nearly **700** participants

**bringing together** potential issuers, investors and financial intermediaries

## Regulation and Policy:



The Green Bond Listing Rules was drafted in collaboration with the NSE and submitted to the CMA

Submitted a request for **withholding tax exemption** for green bonds to the National Treasury and Parliament



Progressed with the establishment of the **GBPK Advisory Committee** to influence new policy incentives and regulations



Developed the curriculum for an e-learning tool to educate potential issuers, investors and financial intermediaries



# Work Stream 1: Researching the potential of green investment opportunities in Kenya

*“The launch of the Green Bonds Programme Kenya (GBPK) comes at a time when African countries are gaining momentum to align with the burgeoning activity within the green finance space. A green bond enables investors to invest in climate friendly assets, which will in turn facilitate climate aligned investments into their portfolios. FSD Africa is proud to support the GBPK with the objective of aiding Kenyan corporates and non-corporates to be in a position to tap the growing global investor demand for green investments.”*

**Dr Evans Osano**  
Director Financial Markets FSD Africa

**KBA and the GBPK, with support from the World Wildlife Fund<sup>4</sup>, commissioned Strategic Business Advisors (SBA) Africa Limited to conduct three separate research pieces into green investment opportunities in the sectors agriculture, manufacturing and transport<sup>5</sup>.**

The reports also specifically include an assessment of the opportunities for the micro, small medium-sized enterprises (MSME) segment of the economy. These studies will enable banks, listed corporations and investors to issue bonds and invest in these sectors from an informed standpoint. There are multiple green investment opportunities in Kenya from afforestation to aquaculture and from mass rapid transit systems to new energy-efficient manufacturing technologies.

Once the studies are published, the programme will organise sector-specific workshops to publicise the findings and raise the profile of these green investment opportunities in Kenya. It is hoped that there may be further opportunity to expand and include other “green” sectors such as green affordable housing in future research pieces.



Photo from the launch of the Green Bonds Programme Kenya held at the Hilton Hotel, Nairobi, on 31<sup>st</sup> March 2017

<sup>4</sup> WWF-Global is one of the largest conservation organisations in the world. WWF-Kenya (WWF-K) implements programmes and projects that contribute to providing an enabling environment for the achievement of sustainable natural resource management. It is in light of this that WWF Kenya through this project, supported the Kenya Green Bonds Programme to understand the existing and estimated future investment potential and financing demand for green investment projects in Kenya.

<sup>5</sup> Of these sectors, agriculture and manufacturing, are also part of the government's Big Four Agenda

**Over the past year the programme has engaged potential issuers, local investors, for example, the Retirement Benefit Authority, as well as international investors.**

### Sensitisation of Potential Issuers

The programme organised and participated in six events designed to sensitise potential issuers about Green Bonds: a breakfast briefing with the NSE; a workshop with financiers and developers in the green building sector<sup>6</sup>; an international learning session on the sovereign green bonds in France, sponsored by WWF and KBA; a peer international learning session between Turkiye Sinai Kalkinma Bankasi, a Turkish bank and Kenyan stakeholders, sponsored by the IFC; a peer international learning session between a regional bank based in Kenya and Yes Bank (India), sponsored by FMO; and a panel at the Bonds, Loans and Sukuk Conference. An important part of these peer learning sessions was leveraging international expertise and networks to promote local learning. The programme also engaged over twenty organisations with technical support for potential green bond issuance, and development of a pipeline of green bond issuers.



Photo from the Green Bond stakeholder consultation forum on the Development of the Green Bond Market in Kenya held at the Hilton Hotel, Nairobi, on 24<sup>th</sup> May 2018

<sup>6</sup> KBA, as well as both the Kenya Property Development Association and the Kenya Green Building Society convened their members for this event. These participants were integral to the event because they identified green assets in the property market in Kenya.

## Work Stream 2: Developing a pipeline of green investments and engaging with local and international investors

*“Sensitising market stakeholders through creating awareness using the right channels and learning from international green finance issuers is a great part of capacity building for the Kenyan economy. Climate finance instruments like green bonds can be used in achieving not only GESIP objectives at the country level but also enhance sustainable transformative impact through potential matching of investors with an ESG focus to African issuers with a similar focus. Achieving such transformations would also raise Kenya’s profile in the global space as a climate finance champion”*

**Vimal Parmar, CFA**  
Capital Markets Development Specialist, FSD Africa

# Work Stream 2: Developing a pipeline of green investments and engaging with local and international investors (continued)

*"We are very excited to be able to work with our partners to grow a green bonds market in Kenya. This is going to be part of delivering lower cost capital to green projects, and developing capital markets in Kenya. In this year of sovereign green bonds Kenya is taking action and issuing will enhance its leadership positioning in Africa and provide a positive example to other nations looking for climate finance options."*

**Sean Kidney**  
Climate Bonds Initiative Chief Executive

## Sensitisation of Investors and Financial Intermediaries

The programme organised and participated in two events designed to sensitise potential investors and financial intermediaries about Green Bonds: a green bond briefing session for the Kenya Association of Stockbrokers and Investment Banks (KASIB); a local verifier green portfolio review training (see section Work Stream 5: Creating a pool of Kenyan-based licenced verifiers); and a two-day workshop in partnership with the Retirement Benefits Authority (RBA) for pension fund Trustees and Fund Managers.



Photo from the launch of the Green Bonds Programme Kenya held at the Hilton Hotel, Nairobi, on 31<sup>st</sup> March 2017

## Engagement with Policy Makers and Regulators

As part of the work to develop the NSE Listing Rules for Green Instruments and to create an overall enabling environment for green bond issuance and investment, the programme organised and participated in three events designed to engage policy makers, regulators and other stakeholders about green bonds: a stakeholder consultation on the draft Listing Rules for Green Instruments; a green bond stakeholder engagement forum with the National Treasury; and a session for the Parliamentary Committee on Environment and Natural Resources.

*"By raising capital for green projects and investing in low-carbon infrastructure, the green bond represents a key business case to significantly reduce carbon emissions, raise resource efficiency and benefit our environment."*

**Dr Kamau Thugge**  
CBS Principal Secretary, National Treasury



The Programme engaged Lion's Head Global Partners (LHGP), a Nairobi-based investment bank, to assess the feasibility of establishing the Kenya Pooled Green Bond Fund, a Special Purpose Vehicle (SPV) that will issue Kenyan shilling denominated bonds backed by loans issued by banks towards financing green-certified projects. The SPV's objective is to provide a source of financing to medium and small banks, which may not have individual 'green portfolios' that are large enough to back a bond issue.

Lion's Head has proposed an on-balance sheet financing structure for a pool of banks. In this structure, banks will identify green assets that adhere to established green standards and pledge them as collateral in return for financing from the proceeds of a green bond issued by the SPV. Despite the interest rate cap (discussed in section Learnings and Challenges Faced below), banks have begun identifying green assets within their portfolios in readiness for a pooled financing when the interest rate regime becomes more favourable for a bond issuance. In the coming months the Programme intends to sign a Memorandum of Understanding with the banks that have expressed their interest in participating in the pooled vehicle and to conclude on the structure of the SPV.



Photo from the launch of the Green Bonds Programme Kenya held at the Hilton Hotel, Nairobi, on 31<sup>st</sup> March 2017

## Work Stream 3: Development of a cooperative fixed income fundraising facility

*"FMO is proud to support the GBPK. Of particular interest to FMO is the development of the Pooled Fund facility / Special Purpose Vehicle. This highly innovative set up allows KBA member banks, especially Tier 2 and Tier 3 banks, and corporates to jointly access debt capital markets for green investments. Through the pooling structure, more banks can benefit from the GBPK thereby unlocking a larger potential for green financing/investing in the country and the greater East Africa region. Examples of these are renewable energy, low-carbon transport, water infrastructure, and sustainable agriculture"*

**Bart Heinink**  
Environmental & Social Officer FMO

# Work Stream 4: Policy incentives and regulations review

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*“Regulatory oversight through Green bond standards and guidelines set a minimum level of rules that green bond issuers need to adhere to. High governance levels and better transparency in the green bond issues will not only raise investor confidence in the market but also lower the cost of raising capital using such instruments.”*

**Vimal Parmar, CFA**

Capital markets Development Specialist, FSD Africa

In its role as an influencer and facilitator, over the past year the programme has worked closely with the National Treasury, the CBK and the CMA to put forward various reforms and policy changes in the banking and capital markets regulations to support both private and public sector participation in the Green Bond market in Kenya.

## GBPK Advisory Council and Incentives to Support Green Bond Issuance in Kenya

The GBPK is in the process of establishing an Advisory Committee which will be chaired by the Governor of the Central Bank of Kenya. The GBPK, through the Advisory Committee, will lobby for further regulatory incentives to encourage green bond issuance and investment. At present in Kenya Infrastructure Bonds are withholding tax-exempt and this automatically applies to green infrastructure bonds. In addition, the GBPK, through the CMA and capital market industry organisations, has engaged legislators on the importance of extending these tax neutrality measures to other sectors financed via green bonds.

## Issuer's Guide to the Green Bond Market and NSE Listing Rules

The global green bond market was born as a voluntary market, relying on self-labelling from the issuer; at the market's onset these were the development banks. As the market has grown and diversified over the years, guidelines and standards have been increasingly been adopted and external reviews on the green credentials of the bonds have become a common practice.

In Kenya, requirements for green bond issuance fall under the NSE Listing Rules with the oversight of the CMA. Green bonds are subject to the same listing rules as regular debt instruments, but with additional requirements relating to the “green” label. The GBPK assisted the drafting of the NSE Listing Rules with provision for Green Bonds. These have been submitted to CMA and the process is now in the final consultation period. The requirements are in line with the Climate Bonds Initiative sponsored Climate Bonds Standard and the International Capital Market Association sponsored Green Bond Principles. The GBPK has also drafted an Issuer's Guide to the Green Bond Market in Kenya, drawing on international best practice. The Issuer's Guide which complement the Listing Rules with more detailed information and guidance are also at final review stage and are expected to be published before the end of the year. The Issuer's Guide is intended to be educational and will be of use to all issuers, investors and financial intermediaries looking to participate in the Green Bond market in Kenya.

Working with the CBI, the GBPK launched a training programme in June 2018 to equip Kenyan-based consultants to start the journey of becoming licenced verifiers. The training focused on green asset identification in line with the Green Bond Principles and the CBI Climate Bond Certification scheme as well as the development of a Green Bond Framework. Twenty-one delegates from a cross-section of the stakeholder community undertook the training. Following the training, four banks have expressed interest to participate in the green SPV. A timeline is being developed for consultants to work with these banks to generate a list of potential green assets to bring to the pool.



Green Bond portfolio review training held at Golden Tulip, westlands, Nairobi 26<sup>th</sup> – 27<sup>th</sup> June 2018.

## Work Stream 5: Creating a pool of Kenyan-based licenced verifiers

The GBPK has developed an innovative curriculum for an e-learning tool for all relevant stakeholders from both the public and private sectors. The material will be made available through two main forums: the KBA Sustainable Finance Initiative (SFI) portal (which has 28,000 account holders) and the NSE website. The e-learning platform is now under development and is expected to be launched by the end of the year.



## Work Stream 6: Curriculum for E-Learning Platform





## Learnings and Challenges Faced

**Despite the Programme's clear achievements in developing interest and building consensus in catalysing a market for green bonds in Kenya, various external obstacles have been encountered. The extent of these externalities effect on the market and in turn the Programme could not have been predicted in advance.**

First, the launch of the GBPK coincided with the Kenyan Presidential Election period. The elections, and their depressing effects on the economy, went on until the end of 2017. During this period, some organisations were hesitant about the future due to the unpredictable political environment.

Second, the current interest rate environment in Kenya is not necessarily conducive to bond issuance. Whereas bond investors would ask for a premium above government debt<sup>7</sup>, the lending rate for banks has since 2016 capped at 4 percent above the Central Bank Rate<sup>8</sup>. Thereby, proper risk-pricing has essentially been eliminated by the ceiling.

Banks and KBA have engaged in lobbying efforts for parliament to review the interest rate cap and to find alternative and more effective ways of address the objectives intended with the cap.

A third overall challenge for development of local capital market-based funding mechanisms, is competing sources of DFI finance. Issuers have at present access to favourable DFI USD-denominated financing rendering bond market financing less competitive. The GBPK will seek to engage the DFI community to ensure that their activities do not "compete" with the bond market.

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<sup>7</sup> 5-year debt is currently yielding at approximately 12 percent

<sup>8</sup> 9 percent CBR as of August 2018



# Going Forward and Call to Action

As a direct result of the GBPK's work, Kenya is well on the path to becoming the third country in sub-Saharan Africa after Nigeria and South Africa to float a sovereign green bond. The National Treasury has indicated that its debut sovereign green bond will be issued during the fiscal year 2018/19. This will make Kenya the first country in East and Central Africa to issue a green bond. On top of this, there are additional organisations that have been identified by the GBPK, which are interested in a green bond issuance. This will be a pivotal moment for Kenya, and will provide an example to follow for other East African economies. The GBPK intends to leverage its experience in Kenya to catalyse similar programmes in East Africa and also in due time to promote Green Islamic Finance. All this said, the GBPK cannot achieve these ambitions

*"I would like to urge you to continue building the momentum in ensuring a green bond market is established. We have to work together if our objectives are to be realised. I believe we will all reap revenues, expand our market share while doing good for this planet"*

**Mr John Gachora,**  
Kenya Bankers Association Vice  
Chairman and Group MD NIC Bank  
Green Bonds Stakeholders Forum

without the dedication of its partners and associate organisations, specifically the policy makers and regulators, issuers and investors. The GBPK therefore, calls upon its key allies in its mission to catalyse the green bond market in Kenya and further afield in East Africa: for policy makers and regulators to review the investment landscape to create a favourable investment environment for the green economy; for issuers to incorporate sustainability into their commercial strategies, ensuring that environmental and social factors are taken into consideration, thus promoting investments in the green economy; and for investors to explore the multi-faceted opportunities associated with green and other sustainability related investments which impact not only environmental and social targets but also realise positive long-term financial returns.

# Annex A: List of terms

## What is a green bond?

A green bond is a type of debt instrument whose proceeds are exclusively earmarked to fund projects that deliver environmental benefits.

Green bonds are about the assets funded, not the entity. Any institution with the capability to raise capital through a bond issuance can issue a green bond as long as the bond proceeds are used to fund or refinance green assets.

## What is a climate bond?

Climate bonds are a subset of green bonds. Use-of-proceeds for a climate bond must be invested in assets compatible with a low carbon future and/or that deliver adaptation and resilience to current and future climate change.

## Why issue a green bond?

Green bonds can deliver several benefits for both issuers and investors. For investors, they offer comparable returns with the addition of environmental benefits provide greater transparency over the management of proceeds and satisfy ESG requirements; for issuers they improve investor diversification and attract new investors, enhance reputation and enable matching of financing terms with project life.

Benefits for investors	Benefits for issuers
<ul style="list-style-type: none"><li>✓ Comparable financial returns with the addition of environmental benefits</li><li>✓ Satisfy Environmental, Social and Governance (ESG) requirements for sustainable investment mandates</li><li>✓ Enable direct investment in the 'greening' of brown sectors</li><li>✓ Increased transparency and accountability on the use and management of proceeds</li></ul>	<ul style="list-style-type: none"><li>✓ Provide an additional source of sustainable financing</li><li>✓ Match maturity with project life</li><li>✓ Improve investor diversification and attract buy-and-hold investors</li><li>✓ Satisfy Environmental, Social and Governance (ESG) requirements</li><li>✓ Enhance issuer reputation</li><li>✓ Attract strong investor demand, which can lead to high oversubscription</li></ul>



# Annex B: List of Key Stakeholder Events Held from Programme Inception

In the period between June 2016 to June 2018 a total of 608 stakeholders attended meetings, briefing sessions, and trainings organised by the GBPK.

Event Title	Date	Number of Attendees	Sponsor
Stakeholder Consultation and Conceptualisation of Green Bonds Programme	June 2016	80	KBA and NSE
Launch event of Green Bonds Programme	March 2017	100	KBA, NSE, FSD Africa and FMO
Peer Learning Session - Banks and Regulators	May 2017	8	IFC and KBA
Peer Learning Session - Sovereign Green Bonds, France	June 2017	12	KBA and WWF
Green Bond Issuer Guidelines Stakeholder Consultation	September 2017	47	FSD Africa and NSE
Green Building Society (GBS), Kenya Property Developers Association and Green Bonds Programme Event	September 2017	55	FSD Africa and GBS
Bonds Loans and Sukuk Conference	October 2017	100	FSD Africa and KBA
Peer Learning Session - Banks	November 2017	8	FMO and KBA
Kenya Association of Stockbrokers and Investment Banks (KASIB ) and Green Bonds Programme Event	January 2018	21	FSD Africa and KASIB
Nairobi Securities Exchange and Green Bonds Programme Event	March 2018	29	NSE and FSD Africa
Engagement with Parliamentary Committee on Environment and Natural Resources	March 2018	20	KBA and NSE
National Treasury Stakeholder Engagement in partnership with Green Bonds Programme	May 2018	107	Treasury and FSD Africa
Local Verifier and Green Portfolio Review Training by Climate Bonds Initiative	June 2018	21	CBI and FSD Africa
Retirement Benefits Authority workshop for Trustees and Fund Managers on New Assets and Green Bonds	September 2018	80	FSD Africa and RBA

**More information can be found at**  
**[www.greenbondskenya.co.ke](http://www.greenbondskenya.co.ke)**

