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CLIMATE FINANCE

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# Climate Finance in Kenya: Review and Future Outlook

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## Summary

Climate Finance (CF) is critical to Kenya's full realisation of the policy goals as set out in the sustainable development goals (SDGs), the 2015 Paris Agreement and the African Union Agenda 2063. This policy brief draws on the discussion paper published in August 2019 to provide some options for strengthening climate financing strategies for Kenya. The paper shows that Kenya's climate finance policy and institutional arrangements are well developed. The country has been able to attract a reasonable amount of funds but is still falling below its targets. In order to enhance its climate finance prospects the country now requires a shift in investment from policy frameworks to developing skills and capabilities that can deliver competitive and bankable projects and programmes able to include technological systems.

## Policy Pointers

- Kenya has a sophisticated climate finance policy setting led by the National Treasury's Climate Finance Unit, but strengthened collaboration with other government agencies responsible for these policies would help deliver optimal outcomes for climate financing.
- There is strong institutional setting and political will for enhanced climate finance in Kenya and tracking into a diversity of funding sources in line with international standards. There is however the need to establish clear linkages with other non-state and actors, including civil society and business.
- County governments provide a good opportunity to create institutional linkages for devolving funds from the national to local levels. However the existing climate change country funds in five counties need to be upscaled across all Kenya's counties. Clear structural linkages are needed between the national climate agencies and the county climate change funds through a county liaison office.
- The strengthened institutional and policy setting enables Kenya to tap and track a diversity of funds from global sources to meet the National Climate Change Action Plan (NCCAP 2018-22) and Medium Term Plan (MTPIII) 2018-22 targets. This can be enhanced through transition from awareness creation on climate finance procedures to in-depth technical capacity building on developing hardware skills such as technology systems and innovative bankable projects.

## Introduction

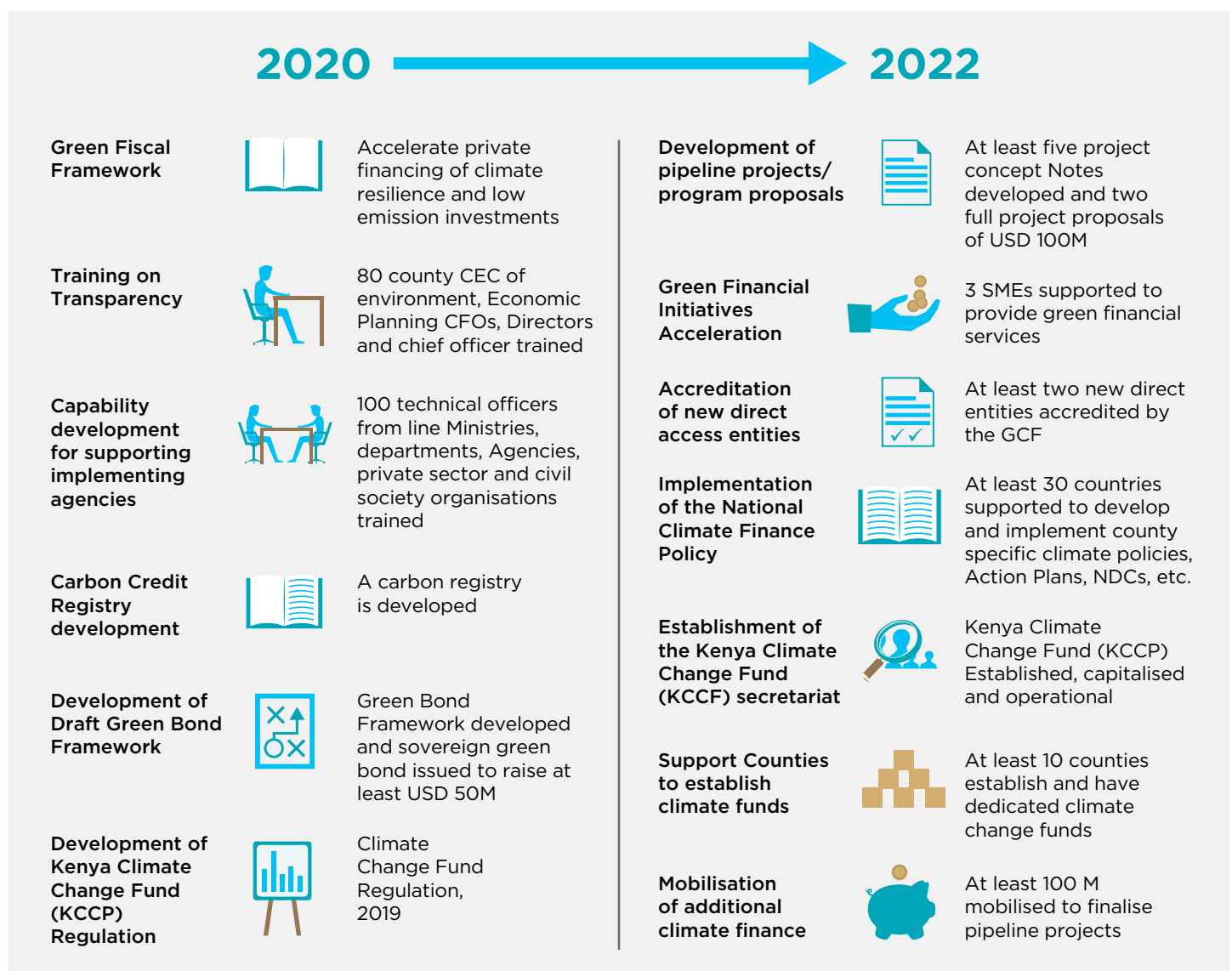
Climate Finance (CF) is critical to Kenya's full realisation of the policy goals as set out in the sustainable development goals (SDGs), the 2015 Paris Agreement and the African Union Agenda 2063. An effective response to the challenge of climate change requires robust financial mechanisms to put in place systems, initiatives and programmes supportive to mitigation and adaptation measures. As global climate policy implementation progresses under the Paris Agreement, there has been an increased realisation that developing African countries such as Kenya will require effective and enabling financial and technical support. The new era of climate change under the Paris Agreement has strived to correct this by establishing more flexible funding such as the Green Climate Fund (GCF) and support windows to integrate the needs of all developing countries in the funding process. Countries also have the opportunity to draw from additional emerging funding windows outside the UNFCCC, including bilateral grants and loans, green bonds and climate change trust funds at national at subnational level. Based on the experiences and achievements so far, Kenya has a huge opportunity to build a more robust climate

finance mechanism taking advantage of its global networks and linkages, ensuring political success and learning lessons on what has been achieved so far. This policy brief provides some pointers climate financing strategies for Kenya based on the country's experiences up to the present day.

## Policy setting

Kenya has a sophisticated climate finance policy setting underpinned by the Kenya's Climate Change Act 2016, the National Climate finance Policy, 2018 and the National Climate Change Action Plan (NCCAP) 2013-2022. The progressive development of these policies and corresponding regulatory mechanisms point to a strong political will to support climate action and mobilise adequate finances. To enhance progress, the National Climate Change Action Plan has set a number of targets to hit between 2019-2022 (see Figure 1). Therefore, it can be seen that Kenya's policy setting on climate finance is progressive but that it will require strict adherence to set targets and strengthened collaboration between various government agencies responsible for these policies would help deliver optimal outcomes for climate financing.

Figure 1: Target policy actions under the climate finance unit at the National Treasury



## Implementation of the national climate finance policy-institutional arrangements

The mainstreaming of climate finance with the National Treasury (NT) and other specific departments provides a suitable institutional framework for managing climate change financing. The functions of the NT are core to the climate financing requirements and management at both international, national and sub nation levels. The creation of the NT's Climate Finance Unit is a step towards enabling and integrating climate finance management. For instance, financial management systems are key in ensuring transparency and accountability of climate funds drawn from various windows. Further, the NT provides established systems for mobilising, allocating and tracking climate funds. Despite these key strategic strengths of the NT, establishing strong ties with other technical and policy arms of the state as well as with non-state actors could help develop a more coordinated and integrated climate finance management system. There are other key agencies such as the climate change directorate responsible for the NCCAP and a host of other state Ministries supporting the Treasury in mobilizing and tracking climate finance.

While this institutional set up provides a framework for tapping into a diversity of funding sources,- especially with regard to enabling tracking flows from the global to national and sub-national levels, the internal mechanisms and flow of funds could be enhanced through building stronger synergy between various policies and institutions for an integrated financial mechanism that is technically, financially and politically sound. There is also a need to enhance links with broader non-state actors including NGOs, the private sector, and other stakeholders so as to tap into various opportunities, including learning, capacity and best practices. The open and transparent dialogue between national and county governments, business, long-term investors, and microfinance, banking and development institutions needs to be further strengthened.

## Devolution of climate funds

Devolution of climate funds remains a major component of climate financing in Kenya because it will help ensure that resources reach where they are needed most. County governments provide a good opportunity to create institutional linkages for devolving funds from the national to local. Counties have established the county climate change funds (CCCFs) but the linkage between these funds and the national system is still currently relatively underdeveloped. There is need to enhance the institutional connection between national and sub-national government level as this currently remains weak. This includes clear structural linkages between the national climate finance unit and the county climate change funds. This will require establishing the county climate finance units (CCFUs) based at county treasury offices across the 47 counties and strengthening the units with adequate technical and financial capacity, while

creating strong linkages with national systems, for instance through a liaison office/officer. The National Treasury Climate Finance Unit (NCFU) has already made efforts to build counties' capacity and this should be strengthened further.

## Monitoring, reporting and verification of climate finance

Kenya has made progress in setting arrangements for monitoring, coding and tracking climate change expenditures to enhance accountability and transparency in line with the Paris Agreement. However, the process is still developing and requires concerted effort to develop accurate and measurable indicators for both mitigation and adaptation, which remain weak. Currently, there are no agreed adaptation indicators at the international level to aid tracking and accurate reporting. The country has made progress under National Climate Change Action Plan (NCCAP); NAP - National Adaptation Plan, GESIP - Green Economy Strategy and Implementation Plan, and the MTP III - Medium Term Plan to identify relevant and appropriate indicators to track progress on adaptation and building resilience. However, these still need to be refined and agreed upon by various stakeholders. Mechanisms to identify the sources and track how the finance has been utilized have still not been fully actualised, yet these are international standards required in climate finance and this may prevent the country from benefiting from and accessing some funds.

## Climate finance windows for Kenya

There are a number of climate financing mechanisms and windows available to Kenya. These windows include those under the UNFCCC framework such as multilateral funds including the Green Climate Fund (GCF), Global Environment Facility (GEF) and Adaptation Funds and those outside the UNFCCC framework including a host of bilateral funds. There are also important domestic sources of climate finance such as national public budget allocations and private investments. As a way of consolidating and disbursing the funds, Kenya is establishing a National Climate Fund with an independent secretariat under the supervision of the National Treasury as provided for under the public finance management act, 2012.

To date, the country has attracted an estimated US\$ 4.6 billion in projects and programmes in various sectors with the bulk of the funds (40%) linked to the energy sector. However, it is widely viewed that the amount of climate funds attracted is currently below the targeted annual amount of US\$3.2 billion. In other words, while Kenya appears to be making progress in establishing policies and institutions to tap into various international funds, the country is yet to fully utilise available funding windows, especially in the private sector.

Institutional coordination and capacity to design funding programs competently are key areas weakening the country's potential to accelerate access to much the ambitions as provided for under the policy. Again the country has made

good investment in the development of the software systems such as enabling policies but there are still clear gaps relating to hardware aspects such as developing technology systems and associated capabilities and innovations, including the competency to develop innovative fundable and bankable initiatives, and these need to be addressed. Efforts by the National Treasury through the Climate Finance Unit to build capacity of line ministries, agencies, CSOs, privates sector and counties are indications of good progress, but these could technically be strengthened so that such trainings can transition from creation of general awareness to more detailed procedural and applied capability building. The African Union is currently preparing a green innovation framework, which will guide countries on how to develop both hard and soft competencies for climate financing, and Kenya could benefit from this.

## Conclusion and recommendations

Overall, the experiences with the climate finance mechanism in Kenya show that the country has made progress but there is huge opportunity to develop a robust system and be a regional leader in climate financing. So far the country has made good progress in terms of setting up the policies and institutional arrangements to help mobilize, allocate and monitor climate finance. The various policy instruments set out by the government to enhance the processes of climate financing paint a progressive future.

The National Policy on Climate Finance seeks to position the country to better access climate finance through a variety of well-thought-out strategies and action plans to be spearheaded through public-private partnerships.

While this institutional and policy set up provides a framework for tapping into a diversity of funding sources, especially enabling financial flows from the global to the national, the internal mechanisms and flow of funds could be enhanced through building stronger synergy between various policies and institutions so as to build and integrate a financial mechanism that is technically, financially and politically sound. There is also need to enhance linkages with the broader non-state actors including NGOs and other stakeholders so as to tap into various opportunities including learning and best practices. Open and transparent dialogue between national and county governments, business, long-term investors, and microfinance, banking and development institutions will be important to address.

## References

For details – please refer to the discussion paper available here:

<https://adaconsortium.org/index.php/component/k2/item/397-climate-finance-in-kenya-review-and-future-outlook>

## About this policy brief

The policy brief draws on the discussion paper published in August 2019 to provide some options for strengthening climate financing strategies for Kenya. It was funded by the generous contributions of the Embassy of Sweden - Nairobi, UKaid through the Building Resilience and Adaptation to Climate Extremes and Disasters (Braced) programme.

## About Ada Consortium

The Adaptation (Ada) Consortium is implementing the County Climate Change Fund mechanism that supports mainstreaming climate change into planning and budgeting, to prepare them to access climate finance from different sources and strengthen public participation in the management and use of those funds. The CCCF mechanism has been piloted successfully in five Kenyan counties – Isiolo, Garissa, Kitui, Makueni and Wajir – and is now being scaled out nationwide. The scale-out is funded by the Republic of Kenya, the Embassy of Sweden - Nairobi, UKaid, IFAD and the World Bank.

## Imprint

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