Sustainable Finance Initiative

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KENYA BANKERS ASSOCIATION

Report of the 3rd CEO Roundtable on Sustainable Finance

10th June 2016, 9:30am – 11:30am, UN Africa Headquarters, Nairobi

Theme: Aligning the Kenya Financial System with the UN Sustainable Development Goals

Co-Hosted by UNEP & The Kenya Bankers Association

SUSTAINABLE DEVELOPMENT GOALS

2016 Focus Area – Banks & the Sustainable Development Goals (SDGs)

Kenya Bankers Association (KBA) convened the 3rd CEO Roundtable on Sustainable Finance on 10th June 2016. The forum, initiated in 2013, provides industry leaders with a platform to engage on pertinent issues regarding institutional and industrial sustainability while factoring the sustainability dimensions of economic development, social value and environmental protection.

The June meeting centred on the recently adopted Sustainable Development Goals, and was hosted by the UN Environmental Program (UNEP) at their global headquarters in Nairobi, which also serves as the United Nations Africa regional office.

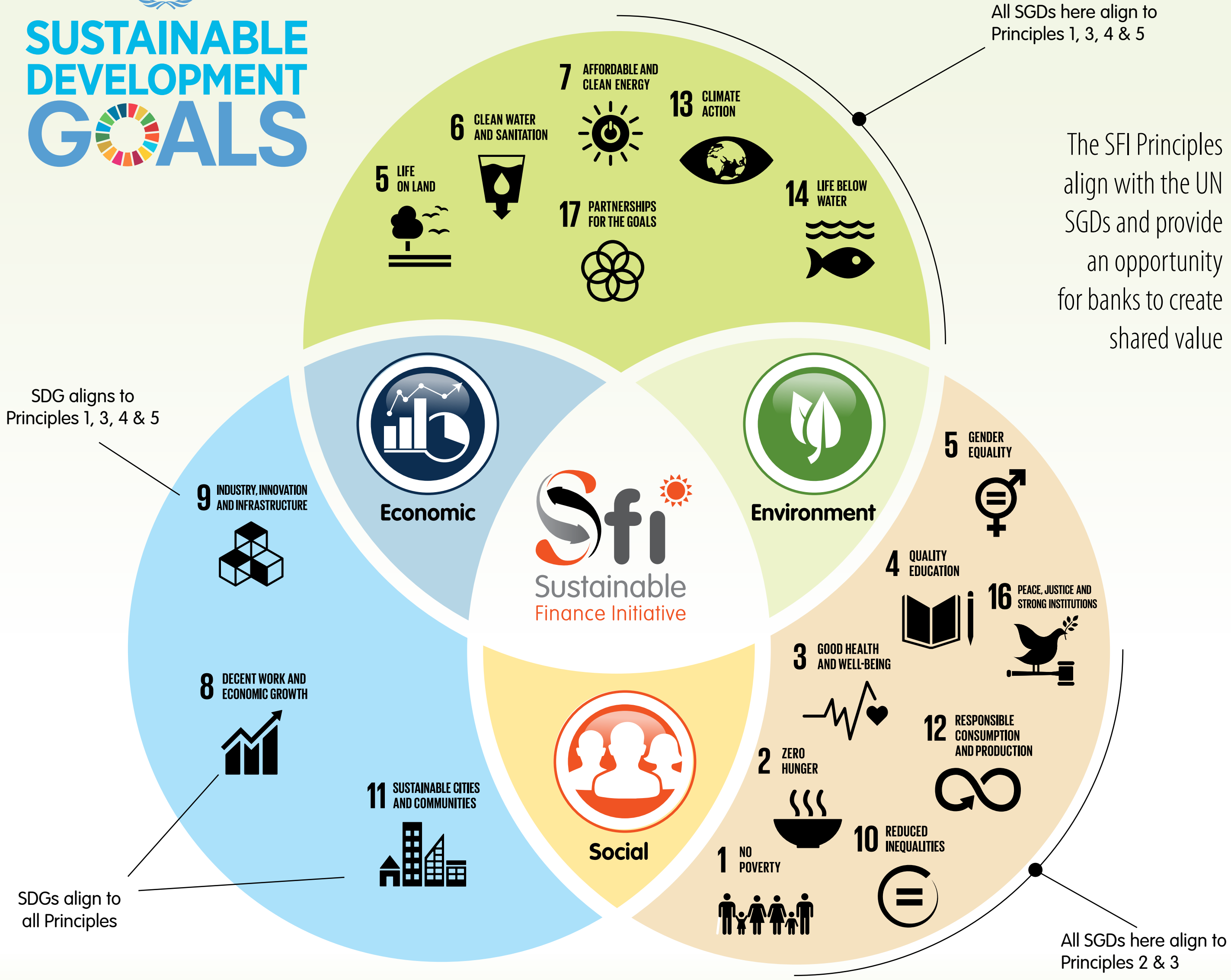
At the meeting, the outgoing UNEP Executive Director Achim Steiner, KBA Vice Chairman and Commercial Bank of Africa CEO Jeremy Ngunze, UNEP Country Coordinator Henry Ndede and KBA CEO Habil Olaka shared views on the role banks and the broader financial services sector can play towards supporting Kenya to realise its SDG targets.

A presentation based on the SDG Matrix published by UN Global Impact and KPMG was made by KBA Director and SFI Lead, Nuru Mugambi.

The presentation also covered how the SFI Principles adopted by the banks enable the industry to directly contribute to the country's attainment of the SDGs.

Overall the meeting recognised the opportunities available for banks to finance clients and programs contributing to and operating within the 17 SDG focus areas.

SUSTAINABLE DEVELOPMENT GOALS



The SFI Principles align with the UN SGDs and provide an opportunity for banks to create shared value

Roundtable Proposals

In addition to the various bank CEOs, the forum hosted several notable delegates including representatives from the National Environmental Management Authority, Nairobi Securities Exchange, PTA Bank, UN REDD, Japan International Cooperation Agency (JICA) and UN Developmental Program. The Ghana Sustainable Banking Principles Committee was also in attendance to observe the forum in conjunction with the team's visit to study the Kenya SFI.

The following proposals were made. Where there was consensus, the proposals will be submitted for industry adoption via the SFI Working Group and KBA Governing Council. The proposals outside of KBA's mandate will require further dialogue and stakeholder engagement.

Proposal 1: Establish SFI as an Africa Center of Excellence

Kenya has a solid track record in financial services innovation, from leading globally in the area of mobile banking following the introduction of M-PESA by Safaricom, to innovative models such as agency banking, table banking, and savings and credit cooperative societies.

The country continues to redefine financial service practice with developing segments including capital markets and insurance. Moreover, Kenya leads the Continent in the financing of small and medium sized businesses (SMEs), and also has made phenomenal strides in financing clean and renewable energy (60 pct of Kenya's energy mix is from renewable energy).

KBA's leadership in advocating for and building capacity in sustainable finance therefore is well placed to position the country as Africa's center of excellence in this area. Additionally, KBA's convening role and investments in the SFI online platform provide the necessary framework for learning and research, best practice sharing and curation of innovative practices that advance sustainable development.

Proposal 2: Tap into Funds for Sustainable Development

It is estimated that the G7 countries have committed to invest USD 356 billion worth of donor aid and development finance directed towards sustainable development and the attainment of the SDGs. Of this capital pool, USD 16 billion is earmarked for Africa. Kenya therefore must leverage its market advantages and sectoral alignment to attract these investments.

Proposal 3: National Treasury Should Incentivise Green Finance

National Treasury should provide fiscal incentives to promote the development of a green bond market. Due to Kenya's geographic location, the

Third SFI CEO Round-table participants.

emerging category of blue bonds is another market opportunity.

It was noted, the carbon trading market collapsed in 2010/2011, however with the new Climate Change Act and COP21 Paris Agreement, there may be an opportunity for a renewal.

Treasury should also prioritise public finance towards sectors that are impacted by climate change, as well as sectors that help drive sustainable development, chiefly SMEs.

Proposal 4: SFI Partnerships Should be Advanced
There is a need for KBA to leverage its convening capacity to collaborate with more partners including civil society organisations. Areas of collaboration include capacity building of bank employees.

There is also a need to stimulate income generation below the poverty line. Opportunities include subsistence agriculture and energy (mini hydro, biogas, solar). Commercial banks should therefore partner with micro finance institutions and impact investors to drive investment that empowers those operating below the poverty line.

Proposal 5: Central Bank to Incentivise Sustainable Finance
CBK can help promote investments towards the Green Economy by introducing discounted risk weights for such assets on bank balance sheets.

Proposal 6: Market Should Adopt Sustainability Reporting
Listed companies on the Securities Exchange will soon be required to initiate integrated reporting and sustainability reporting. There should be extension of this requirement to non-listed entities, as provided for in the SFI Minimum Standards aligned to SFI Guiding Principle Number 5.

Sustainability reporting should also be inculcated in the analyst community so that analysts view firms comprehensively and change mind-sets away from basic quarterly returns analysis.

It was noted that NSE will soon introduce a Sustainability Index which will track environmental, social and governance risk metrics. The Sustainability Index should be supported by the banks.

There is a need to also introduce a mechanism to track carbon finance or low carbon finance within the private financial systems, and leverage data to attract finances from international arenas (e.g. SDG Fund).

Proposal 7: SMEs Need to be Supported to be Sustainable
SMEs have a substantial environmental and social footprint; however, most small and medium sized business owners do not have the capacity to assess their impacts. There is a need to support these firms in energy and waste management planning, among other areas.

Proposal 8: Environmental Impact Assessments
Banks are concerned that environmental impact assessments may be compromised, and hence banks finance clients with projects that are in restricted areas and pose adverse environmental impacts. There is a need to enhance enforcement and the quality of impact assessments. KBA should partner with NEMA to develop a pool of KBA-certified consultants who are trained on comprehensive impact assessments that will provide banks with adequate reports that clearly outline economic, social and environmental risks

...continued on page 6

(L-R) UNEP Executive Director Achim Steiner and KBA CEO Habil Olaka.

Roundtable proposals

...from previous page

and provide recommendations that banks can work with to address partnership with their clients. KBA members can provide NEMA with case studies to demonstrate the risks faced by banks due to fraudulent and incomplete assessments by NEMA agents.

Proposal 9: KBA Should Create Awareness of SFI & Promote Training Programs

KBA's efforts to promote sustainable finance are commendable. More needs to be done to promote the agenda. KBA should partner with educational and academic institutions towards inculcating a culture amongst the next generation of bankers; as well as building capacity in green finance innovations.

> "Kenya has made phenomenal strides in financing clean and renewable energy (60% of her energy mix is from renewable energy)".

Central Bank of Kenya Governor Dr. Patrick Njoroge.

HIGHLIGHTS

SFI Milestones

The 1st CEO Roundtable in September 2013 resulted in the bank chief executives giving KBA the mandate to coordinate the Sustainable Finance Initiative (Link: http://sfi.kba.co.ke) on behalf of the industry. Because Kenya's financial sector is bank-led, the Association was also charged with championing the agenda across the sector.

The 2nd Roundtable was convened in March 2015 to adopt the SFI Guiding Principles and Best Practice Standards which the KBA Secretariat had developed under the guidance of the SFI Working Group comprised of bank representatives.

As much as the SFI Principles were developed by the KBA team, stakeholders including DEG, FMO, UNEP-Finance Initiative, IFC and Cambridge University provided feedback and insight to ensure the industry was in line with global best practice.

The SFI Principles were formerly launched by the Central Bank of Kenya Governor Dr. Patrick Njoroge (picture) on 1st December 2015. The Governor concurrently launched the industry wide SFI capacity building and e-Learning Program (Link: http://sfi.kba.co.ke/e-learning-platform)

Prior to the Kenya launch, the East Africa Bankers Association received a presentation on the SFI in October 2015 and invited KBA to support the countries in similar local initiatives. KBA will therefore be seeking support from partners and donors to support the EAC States.

45 Banks
Membership of the Kenya Bankers Association

11,000
Bank employees trained by the SFI from 1st Dec 2015 and 6th June 2016

2,300
More employees trained since the 10th June CEO Roundtable

PICTORIAL

CEO Roundtable

A cross-section of bank representatives at the Roundtable.

KWFT CEO Mwangi Githaiga sharing a moment with Nonnie Wanjihia, CEO East Africa Venture Capital Association.

(L-R) Middle East Bank CEO Dhiren Rana and Gulf African Bank CEO Abdalla Abdulkhalik.

(TOP) Achim Steiner receives a gift from KBA's Vice Chairman and CEO of CBA Kenya Jeremy Ngunze and Habil Olaka as UNEP Country Coordinator Henry Ndede looks on.

(TOP RIGHT) Mwangi Githaiga, I & M Bank CEO Kihara Maina and Dhiren Rana.

(RIGHT) A cross-section of bank representatives at the Roundtable.

VOX POX

“ Quotables

“The next great step forward could be for Kenya to become one of the global innovation centers for green finance and sustainable finance.” – ACHIM STEINER

ACHIM STEINER
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.”

“This is a remarkable moment in time for the Continent, actually for the whole world. We saw last year two very significant, global directional shifts emerging and I think that they are already translating in virtually every country across the globe and surprisingly quickly. One was the adoption of the 2030 agenda for sustainable development. . . The second major shift that was signalled in 2015 was in the Paris Agreement. . .It may not be yet graspable how significant Paris is. . . we are talking about literally the de-carbonization of our economies in the next 30 to 40 years.”

“One thing is very clear, governments alone through public finance and even development finance cooperation are going to be a catalyst, triggers, accelerators but they will not in themselves lead the kind of investments that are needed in order to achieve the Sustainable Development Goals.”

“There are not many countries on the Continent that have as matured, well developed and as professionally organized finance sector as you have in Kenya. Many of your institutions are already regionally active in markets across the East African region and beyond.”

“I would put to you today, that the next great step forward could be for Kenya to become one of the global innovation centers for green finance and sustainable finance. Because ladies and gentlemen we are talking literally about trillions of dollars over the next decade and a half being invested either in technologies and infrastructure. . . That money which is there should be directed through intelligent public regulatory systems, incentives but also a proactive finance sector."

"KBA is a wonderful platform and it has attracted the interest of many international partners. . . I believe for the African Continent, Nairobi should become a center for sustainable finance, initially in just pushing the boundary, bringing people together, drawing in the innovators from across the Continent and Governments, regulators and central banks."

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."

"Around the area of growth and innovation, this is another principle we resonate with. I know that you have heard a lot about the M-Akiba bond. This basically is a retail bond. The whole aspiration of this program is to increase financial access to majority of Kenyans to be able to participate in the capital markets."

"We are promoting issues of business ethics in organisations. We have a regulatory arm that looks at all aspects of our listed companies. One of the new initiatives under that is to have a corporate governance matrix as part of a compliance check to see whether our listed companies are adhering to this. We are also promoting issues of gender diversity on boards."

"We'll be hosting conferences this year as an anchor party for the UNCTAD, and will be sharing a lot of discussions around areas of promoting sustainability and also encouraging institutions in our country and the region to also participate actively. For us this is a very key agenda and we are glad to be here today."

JEREMY NGUNZE
KBA Vice Chairman & CEO – Commercial Bank of Africa

"It is really exiting to be part of a journey. When we started about three years ago it looked like we were clutching at straws but certainly I think it is exciting to see us making those steps, in the right direction and this kind of conversation is really critical for us because ultimately we are responsible for the future of our children if nothing else. And we have a role to ensure that the future of our country and certainly the world is left in a better place."

"We have talked about the green economy and the opportunities the green economy present to not only to banks but the financial sector in general and the opportunities for us to grow our business profitably in a meaningful way, and we hope to see us move in that direction as government continues to devolve."

"Everyone will agree that sustainable finance is the new paradigm. The future of our industry certainly is in our hands and we need to just make sure that we take the right steps."

"There are huge opportunities. We have talked about energy, energy efficiencies. We've talked about agriculture. We've talked about SMEs. We have even talked about driving innovation. . . There is opportunity. Great opportunity, to take advantage of innovations that drive access to the micro level."

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"I am really keen to see how we can collaborate on developing metrics that actually tell that sustainability story." – KIHARA MAINA

KIHARA MAINA
KBA Governing Council Member and CEO – I&M Bank

"Let me congratulate you again on for this initiative. I think it's actually a very exciting to see such leadership coming from our markets. In terms of some of the issues that have been mentioned here, one particularly that got my attention was around the sustainability reporting."

"If you take for example the focus on our investments analyst. The focus is on how much money you have made and whether you will be able to beat the number next quarter. That invariably is going to lead to a very short-term focus for people who are running business. We need to change the metrics that are actually being reported if this initiative is going to succeed…I am really keen to see how we can collaborate on developing metrics that actually tell that sustainability story."

MWANGI GITHAIGA
KWFT Microfinance Bank CEO

"This is my first time to attend this forum and I think that it is a very good forum where the banks are starting to think there is something to be done other than just making profits. For us (microfinance institutions) we have done this for 30 years because what we do is to pursue the triple bottom-line. We look at profitability because the institution has to be sustainable but we look at moderate profits."

"For you to be a good citizen, you must address certain things. One of the things that we address is rural poverty. When you are addressing rural poverty you have to think about – in every product you come up with – how does it impact the people at a social level. Products we develop we look at; does it impact the people socially? Does it improve their standard of living? Does it improve their lives?"

"What I think should be done is collaborations. We are currently collaborating with KCB and Cooperative Bank to be able to offer products to the areas the commercial banks can't be able to go…I think that with such collaboration, where commercial banks are working with institutions already offering those services down in the villages, we can have a win-win situation."

HABIL OLAKA
Chief Executive, KBA

"As the KBA Secretariat we have been impressed with how the members have become keen on this area of comprehensive risk management. Increasingly there are banks which are having environmental conversations with their clients. A few years ago, this was indeed the preserve of environmental economists and scientists, not bankers, But today we see banks like NIC, Ecobank and KCB introduce environmental and social clauses in their commercial contracts, and this is a step in the right direction."

"As articulated in the Sustainable Finance Guiding Principles, which the banking industry through the KBA adopted last year, we must maintain and create long-term value for our firms, our clients and our societies. Therefore, we encourage the member banks to continue implementing the SFI Guiding Principles, which include a focus on comprehensive risk management."

"The SFI Principles also prioritize the area of governance and ethics. We saw over the last 8 months or so, there have been lapses in governance in three of our institutions, which has indeed shaken our banking industry and set a confidence crisis that will take quite a bit of time for us to address."

"As KBA we recently signed the Code of Ethics for Business in Kenya, which is the private sector's commitment…Internally within KBA, we are also working on a self-regulatory framework, which will introduce some enhanced governance standards and to which we can hold each other accountable."

We must maintain and create long-term value for our firms, our clients and our societies" – HABIL OLAKA

HENRY NDEDE
UNEP Country Coordinator – Kenya

"Africa has Vision 2063, which would be like 100 years after the AU was formed. Within that again you will find that there is what we are calling the 10 year framework...So if you are having banking operations beyond Kenya, Vision 2063 is a very critical reference document."

"Fifteen years ago we carried out a study in Nairobi. More or less on the environmental impact of industries. We realised that cumulatively the SMEs together contribute more than the other big industries. . . That is an element you will probably look at in terms of the indicators as part of the risk assessment and in terms of trying to score against what is there."

NURU MUGAMBI
KBA Director & SFI Lead

"Financial viability does not necessarily mean that you are a sustainable institution or that your firm contributes to sustainable economic development."

"We took some time to look at the SDGs to see if the KBA SFI Principles were aligned. . . we questioned if we were resonating with the global framework on sustainability, and indeed we were very happy to see that our work actually aligns very well with the national agenda as well as the SDGs."

"The good news is there are lots of opportunities for shared value. I call it the 'show me the money' principle. There is a lot of money, economic opportunity for firms within the green finance area. There are opportunities within the product innovation space; there are opportunities for enhanced risk management and risk pricing to really improve the quality of our portfolios. The insurance space is huge as the amount of insurance capital that is needed is substantial; definitely you will see opportunities within the retail space and more so within agriculture."

"If 80 per cent of capital to finance the green economy is expected to come from banks, from insurance companies, private equity firms, what piece of that pie are you taking?"

PETER ODHENGO
National Treasury - Senior Policy Analyst Climate Finance

"The green bond, the blue bond, the carbon credit are very specialised instruments which are just coming in, they have been there but as result of the Paris Agreement they are becoming more and more prominent within the market system."

"There are several instruments that Kenya has put in place. For example, the green economy strategic plan or GESIP which is now going to guide the transformation from the current economic system to a new paradigm shift."

"The Climate Change Act is also key. Again the 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 last month and became operation on the 27 of May, and the Paris Agreement which is also going to be mandatory."

"Billions were promised by the G7, but access and uptake is not yet up to standard because we are not ready. Most of the money is supposed to go to the banking sector because they are financing low carbon emissions investment, which NGOs and government cannot access. . . The Green Climate Fund where the National Treasury is the regulating

authority is working with UNEP and UNDP and a number of organisations in the readiness action to tap this capital. . . The more we come together and put up this readiness action, the better access to that money Kenya will have."

"Finally in governance system, within international climate finance there is a requirement: money going to such investments must be tracked and accounted for. National Treasury is already working on climate change budget coding and is tracking it within the system IFMIS. But we have a challenge how to track carbon finance or low carbon finance which is going through other systems. The CEO meeting is thus critical. We can now start thinking within the guiding principles on how we can track that. Tracking and accountability are one of the ways that can attract more finances through those international arenas."

"Financial viability does not necessarily mean that you are a sustainable institution or that your firm contributes to sustainable economic development."
– NURU MUGAMBI

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