The GLOCEPS
Daily Influential Brief

Opportunities in the Green Fund Market for Kenya's Development Projects

Executive Summary

Key development projects in Kenya have been challenged by resource limitations hence the search for development funding. However, investors are skeptical of supporting capital-intensive projects that are deemed harmful to the environment. Consequently, they prefer green financing options like green bonds to advance environmentally-positive infrastructures. This presents opportunities for Kenya to secure development financing through the Green Fund Market.

Recommendations

The brief recommends that Kenya should;

a) leverage the existing policy framework to drive climate-smart infrastructure investment;

b) harmonize the myriad of legal and administrative arrangements that are either inconsistent or discordant with environmental arrangements or climate change considerations;

c) Encourage entities to develop investment plans with verifiable green transition goals.

Opportunities in the Green Fund Market for Kenya's Development Projects

Full Brief

Key development projects in Kenya targeting agriculture, enhancement of rural living conditions, water resources and forests, renewable energy, and sustainable transport have been challenged by resource limitations. As a result, entities seeking development funding are needed to meet both the project and environmental considerations. Public and private sector investors are wary of supporting capital-intensive projects that are deemed harmful to the environment. Consequently, they prefer green financing options like green bonds to advance environmentally-positive infrastructures. This presents opportunities for Kenya as well as other Sub-Saharan countries that suffer the multiple tragedies of being located in one of the world's most climatically vulnerable regions while in dire need of development financing.

An analysis of the global green financing data points to an acute disadvantage in resourcing sustainable development in Africa. The global green bond market is estimated at USD 200 billion. Africa accounted for only 0.077% of the total green bond issued in 2021. This was lower that the preceding 2019/20 period when the continent received 3% of the global total of climate finance. Experts have identified several handicaps that inhibit green financing in the continent. Among them include lack regulatory frameworks and policies on green financing in numerous sub-Saharan jurisdictions. This situation impedes domestic resource mobilization required for long-term investments. Evidence points to the fact that availability of policies that prop up green financing offer requisite structures that incentivizes to public and private sector institutions to mobilize and offer capital.

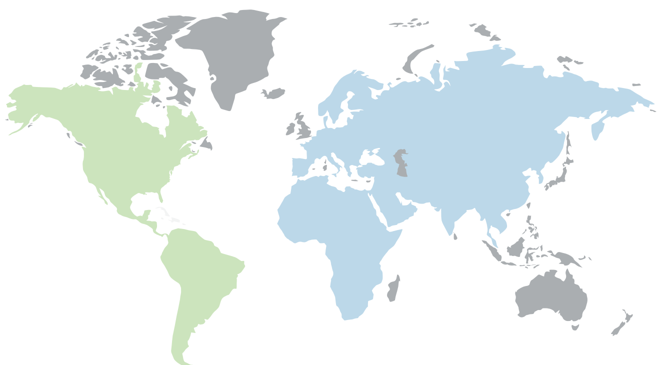
Kenya is in the position of enjoying the first-mover advantage in the continent as it has enacted the Kenya Green Bond Market guide. Such frameworks incentivize green financiers to come and invest in the country's development. An attractive green bond market eases the raising of requisite capital for green projects needed to mitigate the country's exposure to climate change, environmental degradation, and associated social impacts. Kenya has a variety of green projects in need of financing. They are spread across agriculture, water resources and forest regeneration, electric mobility, renewable energy and energy efficiency, and sustainable land use sub-sectors. Thus, the availability of green bond guidelines is an important instrument for the mobilization of local and international capital toward sustainable and climate-resilient infrastructure development.

The existence of policy frameworks provides a solid foundation to link investing and financing needs. The Kenyan Green Economy Strategy and Implementation Plan (GESIP) identified an investment gap of KES 2.4 trillion (USD 23.5 billion) that need to make a significant shift to the national green growth plan. However, constraints due to interest rates in Kenya are proving prohibitive. The pricing of green bond products is considered exorbitant when compared to long-term financing by regional Development Finance Institutions (DFIs). For instance, local green bonds are typically priced between 10% to 16% interest rate annually. This is an average of 10 times more expensive (typically less than 1% annual interest rate) when compared to long-term financing options provided by DFIs like the Africa Development Bank (AfDB), Africa Finance Corporation (AFC), and the Africa Export-Import Bank (Afreximbank). While green financing through DFIs brings with it exposure to foreign currency as the facilities are dollar-denominated, national governments should prioritize them due to less costly interest rates. Policymakers should concurrently undertake interventions for the integration of green bonds in the local commercial banking sector. Governments could equally incentivize pension funds on green financing. For instance, pension funds in Kenya are estimated at KES 1.2 trillion. Thus, green bonds and pensions represent supplemental local financing options for public and private entities.

Despite the aforementioned options, it is important to note that extant realities in developing economies necessitate the need for an intense step-up in international efforts. Debt constraints in most sub-Saharan economies mean that debt-for-climate or debt-for-nature swaps can form options for consideration. The enrichment of the International Development Association (IDA) part of the World Bank through which conditional climate funds can be offered at zero or low-interest rates should be pursued to accelerate green infrastructure development in Kenya.

Green financing will continue to occupy a central role as societies transition to a low-carbon future. Numerous developing economies like Kenya, Ghana, and Ethiopia have factored climate change as a cornerstone variable in their national development plans. There is a growing emphasis on environmentally friendly projects like renewable energy production and clean transport. For instance, the Government of Kenya is in conversation with the European Commission for the first dedicated electric Bus Rapid Transit (BRT) lane system in East Africa. The BRT is expected to feature zero-emission electric buses.

In conclusion, policymakers should leverage the existing policy framework to drive climate-smart infrastructure investment. Public sector entities should endeavor to harmonize the myriad of legal and administrative arrangements that are either inconsistent or discordant with environmental arrangements or climate change considerations. Such projects include potential investment in coal power stations or taxation of electric vehicles. Equally, entities should develop investment plans with verifiable green transition goals. Climate resilient objectives should be practical rather than the existing ones which are either aspirational or speculative. Coherent policy action is thus key to ensuring that Kenyan society and entities remain proactive and adaptive to climate change with affordable financing to forge a better, cleaner, and sustainable future.



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