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Climate Finance in Kenya: Review and Future Outlook

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Abbreviations

AF	Adaptation Fund
ACCF	Africa Climate Change Fund
ASAP	Adaptation for Smallholder Agriculture Programme
ASALs	Arid and Semi-Arid Lands
AREI	Africa Renewable Energy Initiative
CCA	Climate Change Act, 2016 (CCA 2016)
CCF	Climate Change Fund
CIF	Climate Investment Funds
COP	Conference of Parties
FAO	Food and Agriculture Organisation
FCPF	Forest Carbon Partnership Facility
GCF	Green Climate Fund
GCPF	Global Climate Partnership Fund
GDP	Gross Domestic Product
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GEF	Global Environment Facility
GHG	Greenhouse Gas Emissions
IFAD	International Fund for Agriculture and Development
ICF	International Climate Fund
IPCC	Intergovernmental Panel on Climate Change
LDCF	Least Developed Countries Fund
LULUCF	Land use, land-use change, and forestry
MDBs	Multilateral Development Banks
MRV	Monitoring, Reporting and Verification
NAMA	Nationally Appropriate Mitigation Actions
NAP	National Adaptation Plan
NCCC	National Climate Change Council
NCCRS	National Climate Change Response Strategy
NCCAP	National Climate Change Action Plan
NDA	National Designated Authority
NDC	Nationally Determined Contributions
NEMA	National Environment Management Authority
NIE	National Implementing Entities
REDD+	Reducing Emissions from Deforestation and Degradation
REM	REDD+ Early Movers Programme
SCCF	Special Climate Change Fund
SCF	Strategic Climate Fund
UNFCCC	United Nations Framework Convention on Climate Change
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme

Executive Summary

Introduction

Climate Finance 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. For developing countries, such as Kenya, where impacts of climate change are severe, climate finance remains critical to catalyse actions through mitigation and adaptation. Kenya is one of the most vulnerable countries in Africa, experiencing vast, interlinked and widely documented impacts of climate change. The country has low but growing levels of greenhouse gas emissions, although Africa only produces 5% of global emissions.

An effective response to the challenge of climate change requires robust financial mechanisms that include systems, initiatives and programmes supporting mitigation and adaptation measures. As global implementation of climate policy 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. This should build on lessons from the Kyoto Protocol, where more than 80% of international climate funds mobilised through the Clean Development Mechanism went to middle income countries such as China and about 18% percent to developing regions in South America and Middle East, while certain low income regions such as Africa received less than one percent. This gap in climate change financing has been attributed to lack of an attractive host investment context as well as bureaucratic procedures that did not match existing systems of many developing countries such as Kenya. The new era of climate change under the Paris Agreement has strived to correct this by establishing more flexible funding windows such as the Green Climate Fund (GCF) to integrate needs of all developing countries in the funding process. Countries also have the opportunity to draw from additional emerging funding windows outside the United Nations Framework Convention on Climate Change, including bilateral grants and loans, green bonds and climate change trust funds at national and subnational level.

Based on 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 lessons on what has been achieved so far. This discussion paper aims to inform future climate financing strategies for Kenya based on the country's experiences to date.

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 2013–2022. The progressive development of these policies and corresponding regulatory mechanisms point towards 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 for the 2019–2022 period. Therefore, it can be seen that whereas Kenya's policy setting on climate finance is progressive, it will require strict adherence to set targets and continuous learning and improvement. Most importantly, stronger collaboration between various government agencies responsible for these policies would help deliver optimal outcomes for climate financing.

National Climate Finance Institutional Arrangements

Mainstreaming climate finance with the National Treasury (NT) and other specific departments provides a suitable institutional framework for managing climate change financing. Functions of the NT are core to the climate financing requirements and management at both international, national and sub-national 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.

While this institutional setup provides a framework for tapping into diverse funding sources, especially with regard to enabling tracking flows from global to national and sub-national levels, internal mechanisms and flow of funds could be enhanced through stronger synergies 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 building and best practices. The open and transparent dialogue between national and county governments on one side, and business, long-term investors, microfinance, banking and development institutions on the other, needs to be further strengthened.

Further, there is need for key institutions to engage in clear communication on progress and regular updates for accountability purposes as required by the National Climate Finance Policy Sessional Paper No. 3 of 2017. The national and county governments, private sector, knowledge-based institutions, professional bodies such Environment Society of Kenya (ESOK) and civil society have a large enough reach to channel climate finance. However, the potential implementing and executing entities have limited capacity to deal with eligibility criteria and modalities of the various international climate funds.

Devolution of Climate Funds

Devolution of climate funds remains a major priority for 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 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 institutional connection between national and sub-national government levels as this currently remains weak. However the Ministry of Devolution and Arid and Semi-Arid Lands (ASALs) have developed a scale-out strategy for CCCFs to be implemented by the National Drought Management Authority (NDMA). This requires clear structural linkages between the National Climate Finance Unit and CCCFs. This will require establishing 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. The National Treasury Climate Finance Unit (NCFU) has already made efforts to build counties' capacity and this should be strengthened further.

Monitoring, Verification and Reporting 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 efforts for accurate and measureable indicators of both mitigation and adaptation, which remain weak. Currently, there are no agreed adaptation indicators internationally 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 sources and track how finance has been utilized have still not been fully actualised, yet these are international standards required in climate finance and may prevent the country from accessing some international funds. Again there are many other variables that feed into the process such as setting the duration and scale of outputs and outcomes. Furthermore, the skillsets needed for tracking climate finance remain a challenge as the exercise requires integrated skills encompassing both climate and accounting to effectively implement and develop this capacity within the National Treasury, the climate change directorate, Council of Governors, climate-relevant ministries, agencies, departments, companies, NGOs and all 47 counties .

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 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 USD4.6 billion for projects and programmes in various sectors, the bulk of which (40%) has been linked to the energy sector.[1] However, it is widely viewed that the climate funds attracted currently below the annual target of USD3.2 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.

The relatively modest performance is not commensurate with the institutional preparedness and focus the country has made, raising the question on how to enhance effectiveness of existing institutions to tap fully into various funding opportunities and meet targeted financing as provided for under the NCCAP 2018-22 and MPTIII 2018-22 among others. Institutional coordination and capacity to design funding programs competently are key areas weakening the country's potential to accelerate access to match the ambitions as provided for under the policy. The country has made good investment in development of software such as enactment of 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.

1 https://www.undp.org/content/dam/kenya/docs/energy_and_environment/2016%20CPEBR%20Report.pdf

Efforts by the National Treasury through the Climate Finance Unit to build capacity of line ministries, agencies, CSOs, private 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 capacity gap also manifests as lack of adequate investment in research and development (R&D), product development and all other aspects of the innovation critical to propelling the climate change agenda forward. 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

Overall, the experience with the climate finance mechanism in Kenya shows 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 setting up policies and institutional arrangements to help mobilise, allocate and monitor climate finance. The various policy instruments set out by the government to enhance 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 to be executed through public–private partnerships.

Continuous research and innovation in climate adaptation and mitigation and diffusion of local technologies requires an enabling investment context with incentives from both the public and private sectors. Research and innovation will play a key role in climate change adaptation and mitigation strategies and interventions. The complex and dynamic nature of climate change and its impacts requires Kenya to expand and maintain systems for targeted and continuous innovation, including development of locally contextualized technologies. Capacity building for both national and county entities and other stakeholders in climate finance is critical if progress is to be actualised.

1. Introduction

Climate finance is critical to the full realisation of the sustainable development goals, the 2015 Paris Agreement and the African Union Agenda 2063. Climate finance is defined as: additional or incremental investment made in activities aimed to climate-proof programmes and projects against climate change impacts.[2] This includes both climate finance for mitigation by deliberately reducing greenhouse gas (GHG) emissions, and climate finance for adaptation to cover additional costs incurred or invested in an activity to make it resilient to climate change. These may be Climate Change Adaptation (CCA) or Climate Change Mitigation (CCM) activities, capacity building or costs for creating the framework for climate change enabling environment (CCEE) such as development of strategy, policy and international negotiations on climate change. Climate Finance in the Kenyan context is about enhancing the localised adaptive and low emissions green economy development agenda and the full cost of managing effects of climate change in the economy.[3]

For developing countries, such as Kenya, where impacts of climate change are severe,[4] climate change finance remains one of the most critical tools for addressing impacts through mitigation and adaptation measures. Kenya is one of the most vulnerable countries and experiences vast, interlinked and widely documented impacts of climate change. The Intergovernmental Panel on Climate Change (IPCC)'s vulnerability assessment techniques indicate that more than 85% of Kenyan land mass is extremely susceptible to climate change impacts.[5,6] Climate extremities are estimated to cost the country approximately USD500 million annually, which is equivalent to 2.6% of the country's GDP.[7] The country's vulnerability is driven by the fact that the economy is largely dependent on climate-sensitive sectors such as agriculture, tourism and energy yet the country's low-income status impedes its ability to tackle associated impacts of climate change.[8]

Effective responses to the challenge of climate change require effective 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 increased awareness and realisation that developing countries such as Kenya will require effective and enabling financial support. This builds from the lessons learnt from the Kyoto Protocol where more than 80% of climate funds mobilised through the Clean Development Mechanism went to middle-income countries such as China, while certain low-income regions such as Africa host less than 1% of such activities and funds.[9] This gap in climate change financing has been attributed to a lack of attractive host country context and bureaucratic procedures that do not match existing systems of most developing countries such as Kenya. The new era of climate change under the Paris Agreement has strived to correct this by establishing more flexible funding windows such as the Green Climate Fund (GCF) to integrate needs of developing countries in the funding process.

2 UNDP (2016)
3 UNDP (2016)
4 Africa continues to be the worst hit continent by the impacts of climate change despite contributing less than 5 per cent of the greenhouse gas emissions (GHG).
5 IPCC (2013)
6 UNDP (2015)
7 NCCAP (2013-2017)
8 Morton (2007)
9 Christman (2014)

The Paris Agreement set a goal of mobilising USD100 billion per year by 2020, partly channelled through the GCF, to support mitigation and adaptation programmes in developing countries such as Kenya. The GCF has, for instance, committed 50% of its share to finance adaptation — a key need in most African countries. At the regional level, the AU-Agenda 2063 has committed to mobilising a number of funding streams to support member countries in addressing climate change. Regional financial bodies such as the African Development Bank (AfDB), East Africa Development Bank, etc play a key role in championing these continental policy ambitions by financing focal areas of sustainable management of natural assets, financing sustainable infrastructures and building resilient livelihoods. The African Development Bank (AfDB) has developed a framework to promote the Bank's engagement in fostering climate action and a transition to green growth in Africa.[10]

These global and regional processes provide Kenya with the opportunity to put in place an effective climate finance mechanism with technical and institutional frameworks geared towards achieving its commitment to the Paris Agreement and its development vision for broader sustainable development. Indeed, the country has taken several steps towards developing such a climate finance mechanism. The country has integrated the climate finance agenda in various policy instruments in a manner that enables the country to tap into global and regional public and private finance as well as state and non-state financing facilities. Kenya's National Climate Change Action Plan 2013-18;[11] the Climate Change Act 2016; and the National Climate Finance Policy, 2018 among others outline a need to mobilise both financial and technical resources from various streams. For example, the Climate Change Act 2016[12] provides for the development of a regulatory framework that not only supports mobilisation of funds from international and domestic sources, but also sets structures for devolving these funds to the county level. Again, Kenya first submitted its Intended Nationally Determined Contributions with an ambitious goal of mitigation that seeks to reduce Greenhouse Gas (GHG) emissions by 30% by the year 2030, supported through robust financial public and private financial streams drawn from global, regional and national levels.[13] Kenya's Mid Term Sector Plan for Climate Finance 2018–2022 equally sets climate finance ambitions for the country's development blueprint,- Vision 2030. All these show that Kenya is enjoying tremendous political support for climate action.

Based on experiences from the achievements so far, Kenya has a huge opportunity to build a more robust climate finance mechanism taking advantage of its global networks and linkages and ensuing political will. This ambition requires that lessons are drawn from what has been done so far and that these lessons are used to identify opportunities for building an innovative and adaptive climate finance mechanism for the country.

The aim of this paper is to inform new climate financing strategies for Kenya based on the country's experiences so far. The paper specifically seeks to:

1) Understand Kenya's climate finance landscape

2) Highlight the key achievement of Kenya's climate finance experience

3) Highlight lessons and good practices that need to be upscaled

4) Make recommendations on options for enhancing the country's future climate finance ambitions and process.

10 AfDB (2014)

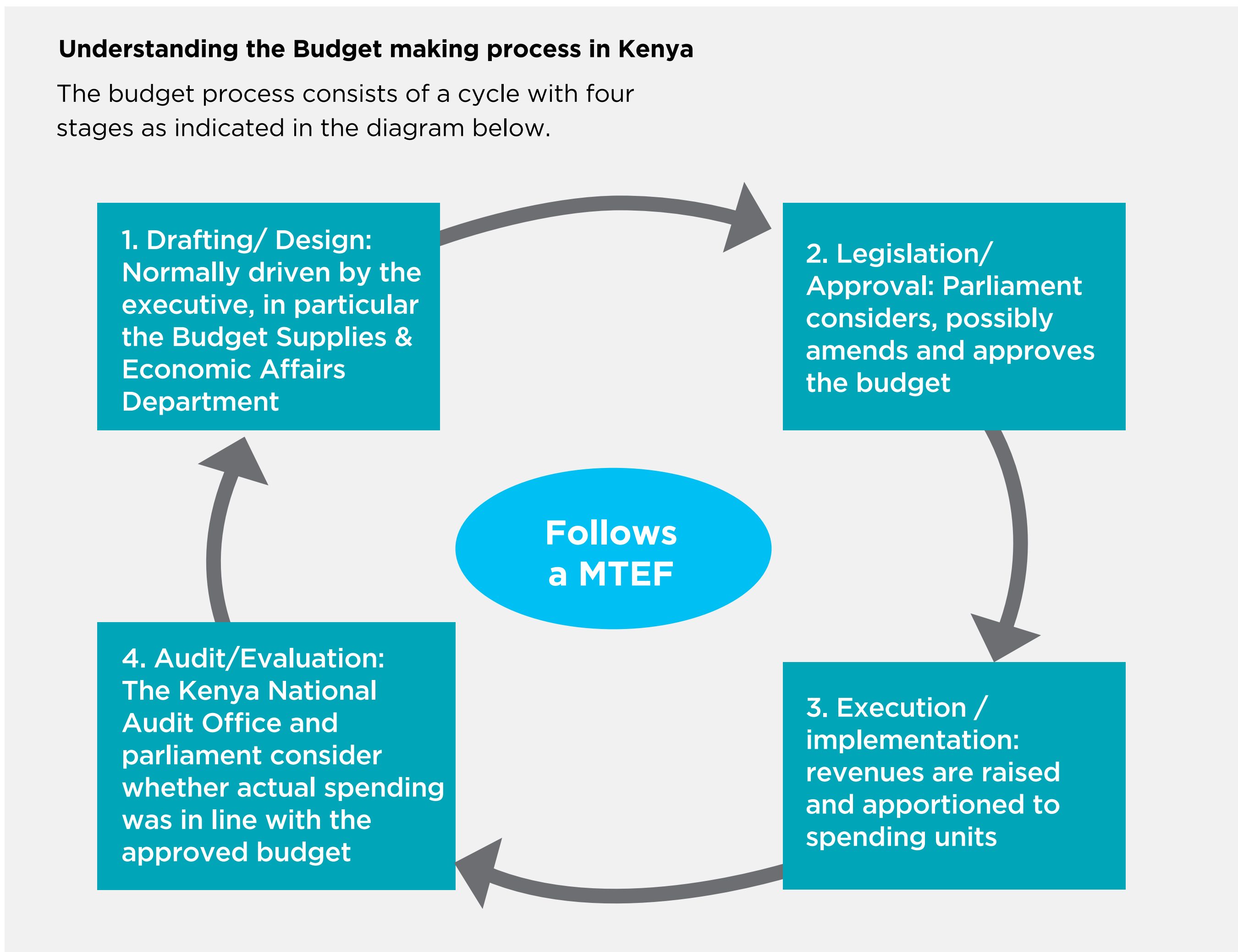
11 Republic of Kenya (2018)

12 Climate Change Act (2016)

13 Rojas-Downing, M.et al., (2017)

More specifically, through this paper we analyse the various climate finance objectives within the public budget process. The budget is the most important economic policy instrument for governments. It reflects a government's social and economic policy priorities more than any other document; translating policies, political commitments and goals into decisions on where funds should be spent and how funds should be collected.[14] The budget has two key components - revenue, whose sources vary from country to country; and expenditure which is determined by how much revenue is available. On the expenditure front, the government allocates funds to various functions such as healthcare, education, infrastructure, agriculture, justice, defence and many others. The budget has four key stages as shown in the figure: drafting/design; legislation/approval; execution and audit/evaluation.

Figure 1: Understanding budget making process in Kenya. Source (IEA, 2011).



14 IEC (2011)

2. Climate Finance Policy Setting in Kenya

Governance remains a key component of an effective climate finance mechanism. This requires a strong policy mechanism and enabling conditions for effective management and delivery. Kenya has established a relatively robust climate finance policy framework.

At the global level, the country has ratified the Paris Agreement and committed its goals through the Nationally Determined Contributions (NDCs) and National Adaptation Plan (NAP). The commitment to the Paris Agreement is enshrined in the country's recent Climate Change Act, 2016 (CCA 2016). The Act provides a regulatory framework for an enhanced response to climate change and provides mechanisms for establishing effective institutional arrangements for climate action including climate financing. A key element of the Act is that it mandates the national and county governments to mobilise and manage public funds and other financial resources transparently for climate change response.

The Act establishes the National Climate Fund as a finance mechanism for supporting priority climate change actions and interventions approved by the National Climate Change Council. This fund is vested and managed under the National Treasury, administered by the council and managed by the Principal Secretary responsible for climate change affairs, climate-resilient development. Approximately USD3.2 million annually is required each year for five years to support operationalisation of the Climate Finance Policy. This will include hiring experts to develop bankable pilot climate projects, support climate finance platforms and the Climate Change Fund.[15]

As an outcome of the Act, Kenya's National Assembly enacted a National Policy on Climate Finance in February 2018 as Sessional Paper No. 3 of 2017. This pioneer policy is seen as a critical catalyser to the attainment of Kenya's Vision 2030 and aligning climate financing to the country's development agenda. The policy provides legal and institutional frameworks for guiding and promoting climate finance flows in Kenya and reporting climate finance through budget tracking. For effective planning and budgeting, the tracking and reporting of funds channelled to climate activities is critical in the climate financing landscape. The National Treasury has been mandated to implement the National Policy on Climate Finance in Kenya.[16] This means that the mandate of the National Treasury goes beyond just financial management into technical support functions. It is therefore imperative that the National Treasury be empowered technically to perform the dual function of financial and technical support of course, with the strategic coordination with other arms of government such as the Ministry of Environment and Forestry's Climate Change Directorate.

As part of formulating actions to be financed, the National Climate Change Action Plans, the Nationally Determined Contributions and the NAP, outline a number of adaptation and mitigation actions that could be considered for funding in line with Kenya's commitment to the Paris Agreement. In addition to actions to be taken, the NCCAP 2018–2022 explicitly relies on resource mobilisation actions expected through the National Climate Finance Policy, 2018 with emphasis on *developing a climate finance and resource mobilisation strategy, piloting the issuance of Green Bonds, improving access modalities and efficiency of climate finance, and ensuring that climate finance is available for actions in key sectors, including the Big Four agenda.*[17] These actions are also being pursued under the National Treasury Climate Finance Unit thus raising the need and/or opportunity to have close coordination and a working relationship with the Climate Change Directorate (responsible for NCCAPs).

15 The National Treasury (2016)

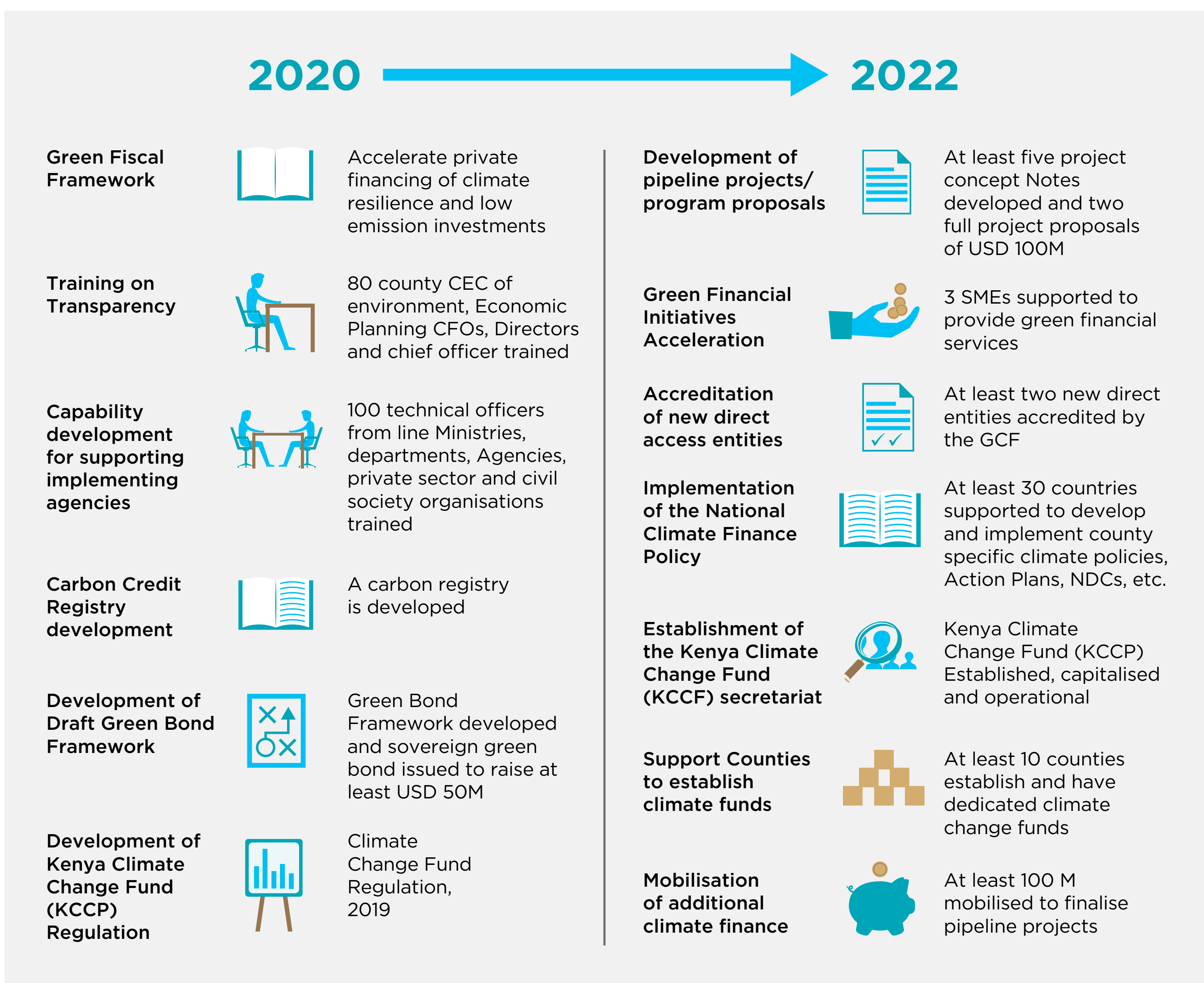
16 The National Treasury (2016)

17 Current Development focus areas of the Government of Kenya. Includes: affordable housing, manufacturing, health and food security.

Other priority actions listed in the NCCAP in relation to climate finance include: supporting the link between the national fund with County Climate Change Funds; building capacity of the National Treasury and Planning as the National Designated Authority (NDA) to the Green Climate Fund (GCF) among others.[18]

The foregoing policy setting demonstrates a set of arrangements on one side to deal with financial mobilisation through the National Treasury and policy, and technical mobilisation through the Ministry of Environment and Forestry's Climate Change Directorate, on the other. However a key requirement for climate financing is prescribing mitigation and adaptation measures, based on the Paris Agreement. Various actions outlined for financing in Kenya's Public Finance Management Act, 2012, provide a framework for tracking public expenditures, including those of climate finance. These include tracking and reporting on climate finance, an alignment of climate finance (tracked by National Treasury) and adaptation and mitigation results (tracked by CCD). In other words, this Act essentially helps to identify climate actions that provide value for money including determining how much climate finance reaches those most in need (such as women, youth and marginalised and minority communities), and the impact of that finance. It is however worth noting that progress in tracking has been slow and requires a mass of integrated capacity (both technical and economic skills) to do so. Growing such skills for climate financing is critical moving forward.

Figure 2: Target policy actions under the climate finance unit at the National Treasury



18 NCCAP (2018-2022)

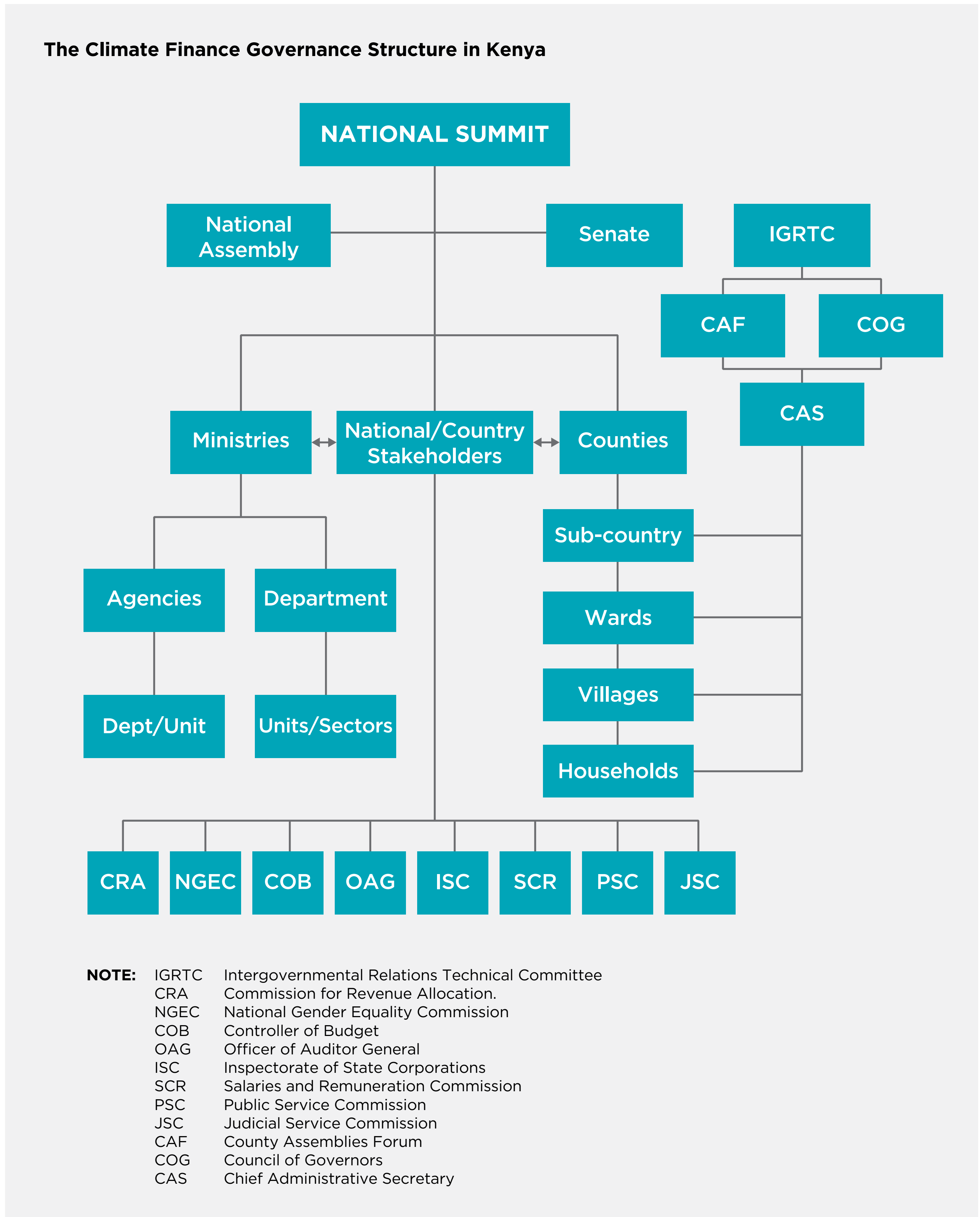
Overall, Kenya's Climate Change Act 2016, the National Climate Finance Policy, 2018 and the NCCAP 2013–2022 are policies set out to enhance processes of climate finance in Kenya. The progressive development of these policies and regulatory mechanisms point to strong political will to support climate action and mobilise adequate finances. To enhance progress, the NCCAP has set several targets to be achieved between 2019–2022 (see Figure). Therefore, it can be seen that Kenya's policy setting on climate finance is progressive but that it will require strict adherence to these set targets, capacity enhancement and continuous learning and improvement. Most importantly, strengthened collaboration between various government agencies, privates sector operative, CSOs and the academia responsible for these policies. This is particularly between the National Treasury and the Ministry of Environment and Forestry to help deliver optimal outcomes for climate financing.

3. Climate Finance Policy Implementation – Institutional Arrangements

The Climate Change Act establishes the National Climate Change Council (NCCC), chaired by the President to provide an overarching national climate change coordination mechanism, and this includes guidance on identification of national priorities as well as overseeing Climate Change Funds (CCF). This high-level responsibility is seen as an opportunity to raise the profile of climate finance to the highest political office in the land.

As already highlighted in the foregoing section, Kenya has set up a number of agencies with particular mandates towards managing climate finance. The agencies responsible for managing Kenya's climate finance have been set along two complementary roles: a finance management and support role, bringing together a number of agencies under the National Treasury and technical and policy management support under the Ministry of Environment and Forestry, through the Climate Change Directorate. These roles in some cases overlap and are complementary thus signaling an opportunity for greater institutional integration and coordination for delivery. In addition, there are a number of other ministries and sectors with some responsibility in policy (e.g. Ministry of Foreign Affairs), technology (eg Ministry for Education, Science and Technology, Ministry of Energy, Ministry of Agriculture) among others. Again, these provide opportunities for greater multi-stakeholder engagement in climate finance in Kenya and the need to have integrated climate finance mechanisms so as to tap into various opportunities. Figure 3 provides a summary of the mainstream institutions/agencies in climate finance.

Figure 3: Climate Finance Governance structure in Kenya



3.1. Financial Mobilisation and Support

3.1.1 The National Treasury and Planning

The National Treasury (NT) department, domiciled in the National Treasury and Planning Ministry has been mandated under the Climate Change Act to manage the National Climate Change Fund. This mandate emanates from the NT's general mandate around managing financial obligations of the national government including composition of national public debt and national guarantees. The NT is also expected to formulate, implement and monitor macroeconomic policies involving expenditure and revenue. Most importantly, the NT is expected to mobilise domestic and external resources for financing national and county government budgetary requirements and design effective management and tracking systems for the funds. Central to these functions is to prepare the National Budget and execute/ implement and control the approved budgetary resources to Ministries/Department and Agencies (MDAs).

The NT has several departments within which climate finance is managed: the Directorate of Public Debt Management, the Directorate of Portfolio Management and the Directorate of Accounting Services and Quality Assurance. The climate finance elements are enshrined within the Financial and Sectorial Affairs Department under the Directorate of Budget and Fiscal and Economic Affairs. The directorate prepares, formulates, implements and monitors macroeconomic, fiscal and financial policies and regulations. The department also assists with supporting development of financial devolution systems including enhancing capacity to assist county governments to develop their capacity for efficient, effective and transparent financial management in consultation with the NT. A key function of the department is to promote innovative financing such as sustainable finance, green transparency, effective management and accountability with regard to public finances including tracking climate finance expenditures.

Overall, the mainstreaming of climate finance within the NT and the specific departments provides a suitable institutional framework for managing climate change financing. These functions of the NT are core to climate financing requirements and management at both international and national level. For instance the financial management systems are key in ensuring the transparency and accountability of climate funds drawn from various windows. Despite these key strategic strengths of the NT in managing the climate funds, strengthening ties with other technical and policy arms of state as well as non-state actors could help develop coordinated and integrated climate finance management systems. Creation of the climate finance unit is a step towards enabling and integrating climate finance management.

3.1.2 The Climate Finance Unit at the National Treasury

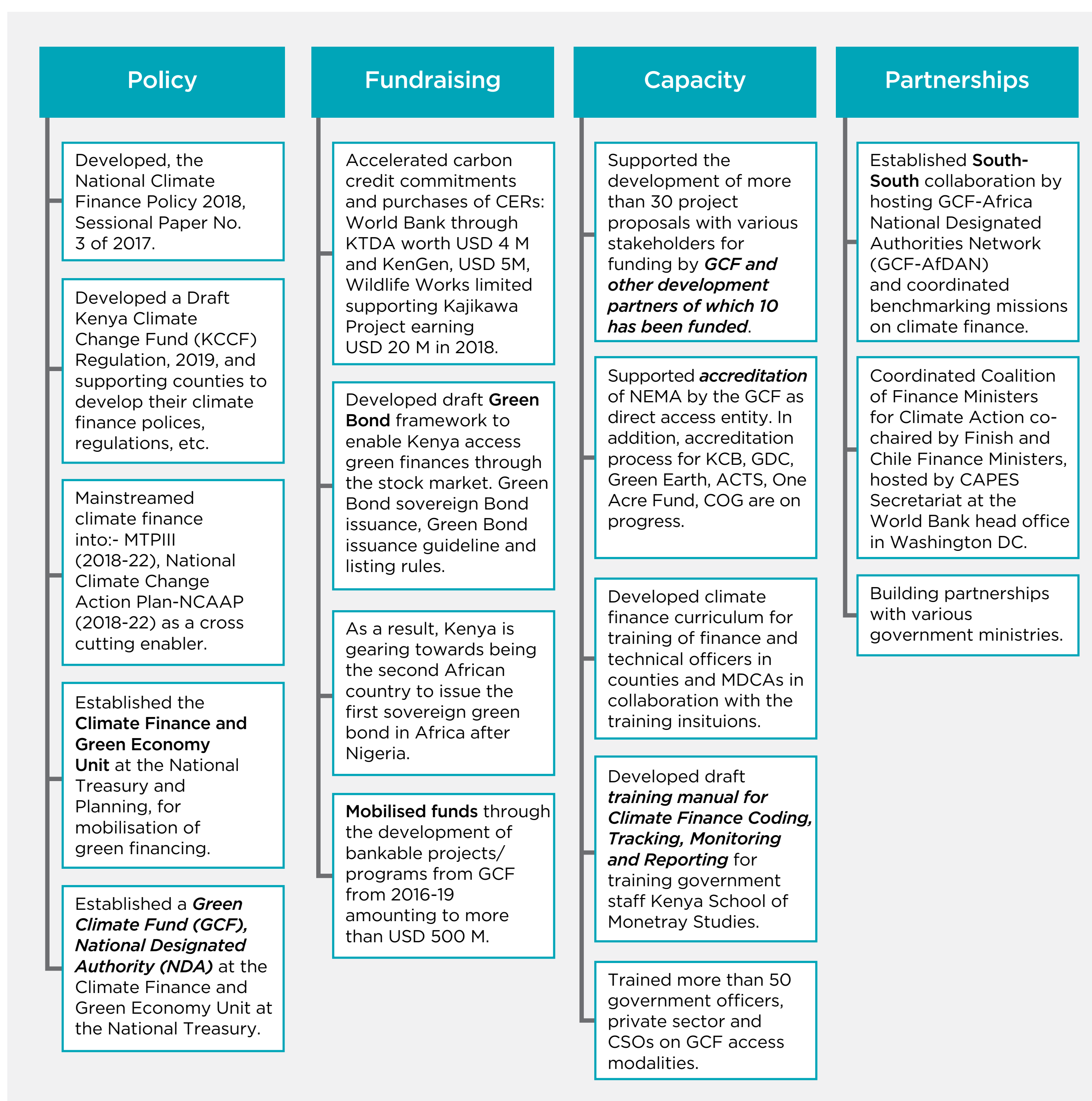
As part of the enhancement of management of international and domestic climate finances, in 2013 the National Treasury established the Climate Finance and Green Economy Unit to provide technical support to line ministries, county governments, the private sector, civil society organisations and development partners on matters pertaining to climate finance in order to enhance and accelerate its accessibility and flows into the country. This followed nomination of the National Treasury to be the National Designated Authority (NDA) for the Green Climate Fund in 2014.

A key role of the climate change finance unit is to create linkages between the climate finance mechanism at the Treasury and other state and non-state organisations. The unit currently works closely with various line ministries, departments, agencies, civil society organisations, private sector, academia, counties and particularly, the Ministry of Environment and Forestry-Climate Change Directorate on matters related to technical and policy support. The NT Climate Finance Unit also works with a number of ministries with climate-relevant mandates including the Ministry of Foreign Affairs, which is responsible for supporting UNFCCC/negotiations; the Ministry of Agriculture, Livestock and Fisheries Climate Change Unit; the Ministry of Energy-Renewable Energy Dept; the Ministry of Transport; the Ministry of Devolution and the

ASAL-Ending Drought Emergencies in the Ministry of Water and Irrigation etc. These relevant ministries play a key role in promoting climate actions through various fiscal and non-fiscal incentives. For instance, Kenya's Energy Act (2006) and the Renewable Energy Feed-in Tariff Policy (2008, revised in 2010) provide incentives including tax exemptions for climate-relevant technologies thus facilitating technology transfer and investments.[19]

To date, the Climate Finance Unit has delivered on a number of strategic climate change areas that continue to open up integrated climate finance mechanisms. These achievements are illustrated in Figure 4 but key among them are: fundraising by supporting development of proposals; policy support through the formulation of climate finance policies; and procedures and capacity building through training various government departments, CSOs and county governments on climate finance mechanisms.

Figure 4: Achievements of the Climate Finance Unit



19 IIED (2014) - Climate Change financing in Kenya. Briefing Note

3.1.3 Central Bank of Kenya

The policy goals of the Central Bank of Kenya (CBK) can be broadly grouped into several roles: maintaining financial and price stability and supporting wider economic objectives. Arguably, even when environmental and sustainability objectives are not part of a central bank's explicit mandate, the instrumental incorporation of sustainability dynamics may be pertinent to achieving price stability as well as safeguarding financial stability.

Central banks are viewed as powerful in developing countries as they can exert or influence private investments. Their market expertise as well as transnational networks can help promote best practice reforms in the financial sector. CBK is mandated to ensure financial and macroeconomic stability. It therefore has an obligation to address climate-related and environmental risks. Implicitly, through its regulatory oversight over money, credit and financial systems, the CBK is in a powerful position to support development of green finance models whilst administering acceptable pricing on environmental and carbon risk by financial institutions.

For instance, since 2009, CBK has issued seven long-term infrastructure bonds whose proceeds have been utilised in funding sustainable infrastructural solutions that include clean and renewable energy plants such as geothermal power generation which ideally serves as a benchmark for the private sector in its project appraisals.

To incentivise green lending, CBK may utilise variations of traditional monetary policy tools and these may include differentiated rediscount rates and capital or reserve requirements. Furthermore, CBK can use its convening power to encourage financial institutions to consider climate and environmental risks in their procedures. Others have argued that if banks accept carbon certificates as part of legal reserves, this could enable companies with low-carbon projects access to concessional loans. This would ideally reduce capital costs for low-carbon projects and make them attractive to markets. Critical questions however arise regarding CBK's mandate and accountability with regards to potential conflicts between such goals vis-à-vis institutional independence. The bank's credibility may be questioned if it incorporates additional goals and then fail to achieve them. Central banks are likely to encounter challenges if they have too many objectives and too few tools and instruments.

3.2. Policy and Technical Support

3.2.1 Ministry of Environment and Forestry for Technical Support

The Ministry of Environment is mandated to provide technical advice and services on climate change to the National Climate Change Council (NCCC) and the National Treasury as well as the Technical Advisory Committee. Their mandates largely involve conservation and management of the environment and natural resources for current and future generations. Moreover, the Ministry co-ordinates the country's climate change responses.[20]

The Ministry has several departments and institutions that play a critical role in climate change responses such as the National Environment Management Authority (NEMA); the Directorate of Environment (DoE); the Kenya Meteorological Department (KMD); the Mines and Geology Department; the Department of Resource Surveys and Remote Sensing as well as the National Climate Change Secretariat (NCCS), which is mandated to lead development and implementation of climate change policies, strategies and action plans. These include the NCCAP (2013–2017; 2018–2022).[21]

20 Government of Kenya (2017).

21 NCCAP (2013-2017) and (2018-2022)

Furthermore, the Ministry is the national focal point for the UNFCCC. The Inter-Ministerial Climate Finance Technical Advisory Committee, under the Ministry of Environment and Forestry is responsible for working with the climate finance mechanism (Climate Change Fund) to offer advisory services to the government as well as the NCCC on climate finance. Its representatives include those from line ministries, the chairperson of the Council of Governors (CoG); the private sector and civil society as well as academia. This committee's role may overlap with that of the Climate Finance Unit at the Treasury and thus needs to build closer synergies and complementarity.

3.2.2 The Climate Change Directorate of the Ministry of Environment and Forestry

The Ministry of Environment and Forestry, through the Climate Change Directorate (CCD), is responsible for the overall coordination and implementation of the NCCAP 2018–2022 which includes coordination and reporting on the implementation of climate actions by partners. The Climate Change Act 2016 provides guidance on the role of the CCD which includes providing analytical support on climate change for various ministries and the county governments as well as provision of technical assistance to county governments.

Furthermore, the CCD is responsible for coordinating the country's adherence to international obligations that include reporting on NDCs; developing national communications and updates on biennial reports and Kenya's GHG inventory as well as representing the country in international negotiations. The CCD also coordinates the implementation of the gender and intergenerational plans eg the youth climate programmes at the national and county government levels; co-ordinates actions linked to climate finance; identifies low-carbon development strategies as well as optimising Kenya's opportunities to mobilise climate finance.

3.3. Devolving Climate Finance in Kenya

The devolution of climate finance to ensure that financial resources reach the grassroots to support vulnerable communities is critical. While the climate finance mechanism appears to be well institutionalised at the national level, the key is translating these institutional processes to a sub-national level where the resources are needed.

The Kenyan Constitution (2010)[22] established 47 autonomous county governments with defined spheres of power and functions. The Climate Change Act 2016 identifies counties as one of the main pathways for devolving funds from the national to local levels. The Act emphasises the need to mainstream climate change actions into county government functions that incorporate the NCCAPs into various sectors of the counties. The Act further requires that counties develop and update the County Integrated Development Plans (CIDPs) and County Sectoral Plans, taking into consideration the need to mainstream and implement the NCCAPs. The governor is mandated to designate a County Executive Committee (CEC) member to coordinate climate change affairs and report yearly progress of the implementation of climate actions to the County Assembly.[23]

County Integrated Development Plans (CIDPs) present an opportunity to identify climate change priorities and actions at the county level, and to integrate these actions into programmes and initiatives. The CIDPs are the primary planning tools for implementing climate interventions at the county level. They are required to set up resource mobilisation and management structures which ideally present opportunities to identify climate priorities and needs and integrate them into programmes. Today most of the CIDPs developed in the 47 counties identify climate change as a major developmental challenge, with impacts experienced and observed in the counties including: an increase in temperatures resulting in prolonged dry spells and drought; erratic rainfall; flooding and unpredictable weather patterns.

22 Government of Kenya (2010)

23 Climate Change Act (2016)

As part of implementing the NCCAPs, counties need strategies that are appropriate and distinctive to the local populations. Responses to key areas such as food and nutrition security' disaster risk management, water and the blue economy, forestry, wildlife and tourism energy, and health and sanitation policies should incorporate climate proofing in their strategies. The CIDPs have recorded how impacts of climate change have affected economic activities that lead to food insecurity, water scarcity, increased spread of diseases as well as human and wildlife conflicts. Responses to these threats vary across different counties. The two main climate change issues across the board that require urgent actions are: droughts and flooding.

The devolution of climate funds through counties takes various forms including Country Climate Change Funds (see below).

3.3.1 County Climate Change Funds

A number of counties have now established County Climate Change Funds (CCCFs) as a consolidated way of mobilising climate financing from various sources to finance local climate actions.[24] The establishment of CCCFs is one of the priorities of the National Climate Change Action Plan (2018–2022). By the year 2019, five counties had established CCCFs. These are: Makueni (2015), Wajir (2016) and Garissa, Isiolo and Kitui (2018). The Makueni County Climate Change Fund Regulations were established in 2015 to provide funds for identified climate actions in the county. The regulations obligate the county to set aside one percent of its annual development budget to combat climate change. In 2016, Wajir County also established the Climate Change Fund Act (No. 3 of 2016) to ensure proper coordination of finance to community-led adaptation and mitigation projects. It further sets aside 2% of its annual development budget to combat climate change. The Garissa County Climate Change Fund Act (2018) mandates the county to budget for 2% of its annual development budget for climate change adaptation in the county. These county climate funds amounted to approximately Ksh 85 million in the 2017/18 fiscal year for Wajir and Ksh 75 million for Makueni.[25]

Most of the CCCFs help to identify, prioritise and finance investments that seek to reduce climate risks while achieving adaptation priorities. These funds have adopted institutional structures that connect local communities to the fund through ward-level planning committees charged with responsibility of identifying adaptation needs. In other words, CCCFs are designed in such a way that they seek to encourage public participation in the management of these funds for resilience on climate change.[26] CCCF investments have largely been used to build resilience focused on livestock, water, natural resource governance and climate information services. Furthermore, CCCFs work through the government's established planning and budgeting systems and are structured to blend resources from international climate finance development partners and the private sector as well as the national and county government budgets[27]. In some of the counties, CCCFs build on past climate funding platforms while in others, the fund is established as a new venture. For instance, in Isiolo, the CCCF was initially piloted as a Climate Adaptation Fund (CAF).

24 Crick et al (2019) https://www.adaconsortium.org/index.php/component/k2/item/396-delivering-climate-finance-at-the-local-level-to-support-adaptation

25 Apgar, M. et al., (2017)

26 Apgar, M. et al., (2017)

27 NCCAP (2018-2022)

The functioning of a CCCF is grounded on three key things. First, the fund's priority areas and operations are closely linked to the county development priorities through the CIDPs. This means that these funds are expected to serve the purpose of integrated climate-compatible development. Secondly, the funds are aligned to local priorities. In this way, the funds embrace very strong participatory planning and locally driven action areas through the use of community resource mapping and participatory vulnerability resilience assessments, as well as community monitoring systems, in order to track how adaptation builds resilience and strengthens economic development. These participatory tools enhance counties' prioritisation of investments on public goods that enhance communities' resilience. Thirdly, the CCCF embraces social inclusion and public accountability. The implementation process is driven by ward-level adaptation committees known as Ward County Climate Planning Committees (WCCPCs). This has enhanced accountability, as the WCCCPCs keenly monitor contractors. CCCFs have enabled officials to integrate climate change concerns into planning and budgeting while county-level Climate Information Services (CIS) have been developed through CCCFs, although these are yet to be utilised for investment designs.[28]

In terms of the strengths of CCCFs, while not many counties currently have them, experience thus far shows that the they have great potential to catalyse climate resilience and inclusive economic development. More importantly, the funds, through their linkages to the local communities have enabled marginalised groups such as women and youth to benefit.[29] Women have benefited tremendously from CCCF investments. For example they are now using time that they previously used to fetch water to engage in activities that contribute to wellness of their families, such as setting up small business and supporting their children to do homework. Generally the CCCF mechanism has led to commendable adaptation benefits for communities while contributing to institutional reforms at the county level, as voices of vulnerable groups are included in decision making. Importantly the CCCFs are integrated into regular government planning systems as opposed to being stand-alone parallel processes.

Evidence shows that CCCFs have led to over 100 community-prioritised public goods investments across the five counties that have so far reached more than 500,000 direct beneficiaries. Studies on the CCCFs show valuable impacts at the household and community level.[30] Large-scale household surveys performed in Wajir, Isiolo and Makueni in 2018 showed that respondents reported 100% greater access to water for households and livestock as people saved approximately two hours each day,(which equals 700 hours annually) and thus provided direct benefits of more than KES 400 million (USD3.6 million) each year in the counties. This translated to annual benefits of Ksh 14,170 (USD130.8) per household and an 8% increase in the annual household income. This has meant tremendous benefits to communities from enhanced livelihoods, better economic opportunities, and reduced conflicts within households as well as the strengthening of customary natural resource institutions.

Furthermore, CCCFs have enhanced local institutions championing climate resilience. Indeed, scholars argue that CCCFs provide a great example of how global climate finance can reach the most vulnerable communities as climate-resilient development as well as effective adaptation as set out in the Paris Agreement.[31]

28 Apgar, M. et al., (2017)

29 MacGregor 2019 https://www.adaconsortium.org/index.php/component/k2/item/381-assessing-the-effectiveness-of-the-cccf-mechanism-on-rural-livelihoods-and-institutions-in-kenya

30 Crick, F. et al., (2019)

31 Crick, F. et al., (2019)

3.3.2 Challenges to Climate Finance Devolution in Kenya

While there has been focus on the inclusion aspect of community participation as being key, in the transition from pilot to project phase embedded in government processes, challenges remain for institutional sustainability of these investments as well as integration of climate information into the design of investments, while ensuring that the most vulnerable benefit from the climate information. Research is yet to be done to show CCCF approaches for measuring resilience.

Institutional strengthening for effective climate finance is key, as this enables institutions to effectively engage on climate resilience. Limitations have been identified in formal planning systems in the Arid and Semi-Arid Lands (ASALs). There is evident disconnect between government and community planning, with traditional community-based institutions rarely consulted and absent from formal planning process. The lack of grasp on community planning processes by the government is therefore a challenge.

There have been complaints regarding procurement processes and delivery of investments perceived as slow, with little community oversight. Communities may not be in a position to develop proposals that are aligned to government structures and systems and thus need climate information support.

Climate information is also not properly integrated into government planning. Moreover, in most instances centrally set budget guidelines limit sub-national governments' ability to support local priorities, particularly within the annual budget cycle.

4. Climate Finance Tracking, Monitoring and Reporting

Operating climate finance in a developing country context such as Kenya requires effective monitoring systems to ensure that climate change action and spending on climate change leads to real results. For mitigation, this means demonstrating that GHG emissions are lower than the projected baseline and that Kenya is delivering on its NDC. For adaptation, this means demonstrating that people can cope with climate change better. As an example, in the agriculture sector this means that production is maintained or increased as climate changes; for infrastructure this means that capital investments are not damaged by extreme weather events (flooding, sea level rise and storm surges) and maintain their value over time. Consequently, Climate Finance monitoring, verification and reporting takes place on two levels: budgetary monitoring and technical monitoring. While budgetary monitoring takes place within the National Treasury, the technical monitoring falls within the remit of the Climate Change Directorate of the Ministry of Environment and Forestry.

4.1. Budget Expenditure Tracking: Methodology and Progress

The Paris Agreement requires reporting transparency on financial flows and transactions and ensuring that finance is directed to countries in need. Article 13 of the agreement establishes a transparency framework designed to provide clarity on support provided as well as support received by individual parties.[32]

Kenya is part of the transparency framework and is expected to provide frequent information (at least biennially) on the support required and needed under Articles 9 (Finance for mitigation and adaptation) and technology development (10) and transfer (11) capacity building. Parties to the Paris Agreement are also required to participate in facilitative, multilateral processes to consider progress on efforts to finance mitigation and adaptation in a balanced manner.

The Climate Finance Policy requires seed funding of Ksh 500 million (USD5 mllion) as initial capitalisation to enable the climate finance mechanism (Climate Change Fund) to start financing activities and roles in coordinating and tracking of climate finance. The Kenya Climate Change Fund (KCCF) is mandated to develop a resource mobilisation strategy as well as a monitoring, evaluation, reporting and verification framework for climate finance. For enhanced transparency learning from implementation, facilitating and effective tracking of climate finance, it is important that objectives and outputs/outcomes of activities planned should be clear on budget lines as this helps to differentiate between adaptation and mitigation activities and evaluate if co-benefits do exist. Outputs/outcomes will confirm the existence of those co-benefits and these are informative for the coding and tracking process.

Kenya has made useful strides in developing a climate finance monitoring system. The State Department for Planning coordinates implementation of the National Integrated Monitoring and Evaluation System (NIMES) whose institutional framework comprises of Ministries, Departments and Agencies (MDAs) while at the county level there is the County Integrated Monitoring and Evaluation System (CIMES). Under NIMES, the State Department of Planning has developed the national indicator handbook for MTP implementation and a CIDP indicator handbook for the counties. Within these frameworks, the country has developed a climate expenditure budget codes training handbook for training of all actors in climate change agenda to help track climate expenditures.[33]

32 Omedi M. (2018)

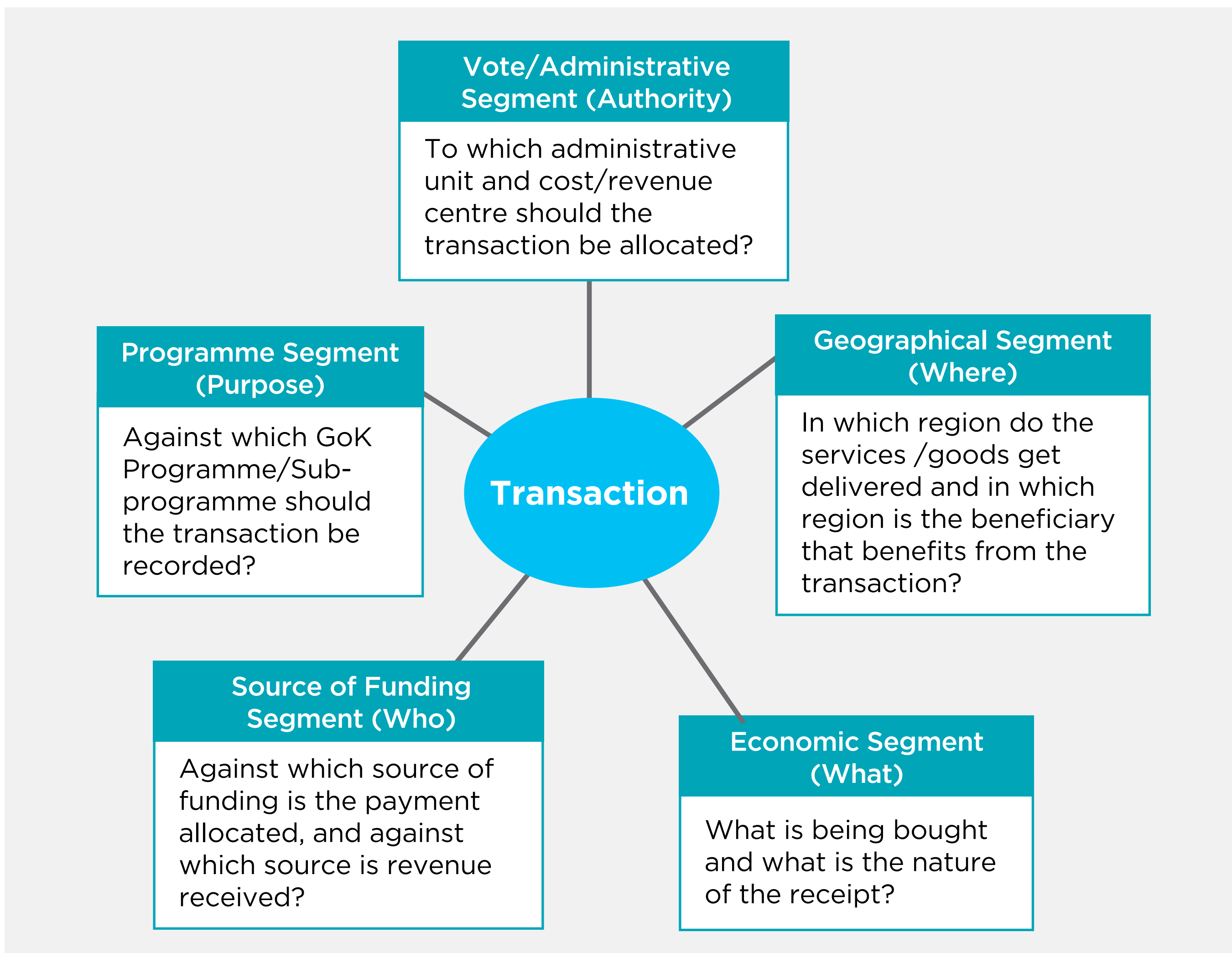
33 UNDP (2014). Development of Climate Change Budget Codes for the National Treasury. UNDP

Climate expenditure budget codes build on Programme Based Budgeting (PBB) which was established within the remit of the Public Financial Management (PFM) Act (2012) with an aim of ensuring accountability and results-based financing of programmes under various ministries. Based on about ten national planning sectors and past reviews (e.g. the review of the financial year 2013/2014), National Treasury identified four primary climate-relevant sectors with climate change-related budgets, including: Agriculture and Rural Development (ARD); energy, infrastructure and ICT; General Economic and Labor Affairs and Environmental Protection, Water and Housing. These are the primary sectors with climate change-related programmes. It was however observed that most of the programmes, while listed as climate related, were not directly addressing climate change issues, and hence no clear performance targets had been formulated.

Henceforth, the development of budget coding has built on the PBB and utilises the Standard Chart of Accounts (SCOA) coding structure to code and record climate expenditures in the IFMIS, for both international and domestic climate funds. The SCOA maps budget data and associated programmes and sub-programmes to the required degree of detail including budget source and transaction reason. The figure shows the SCOA mapping segments, i.e elements that are used to define budget codes for climate and other expenditures. Each segment is used to define budget data and transactions. It is within these segments that particular climate-related indicators are developed and aligned.

The figure below provides an illustration of the different dimensions of the Chart of Accounts.

Figure 5: SCOA mapping chart for budget expenditures. Source UNDP, 2014



Text box 1: Case example of budget coding: Adopted from UNDP 2014

The GoK Standard Chart of Accounts (SCOA) has a total of 7 segments and 41 digits and is structured as follows:

Assume that in the FY 2014/15, the "Environment, Water and Housing" Sector through the Ministry of Environment and Mineral Resources (MENR) plans to map water towers, wetlands basins, and dams in the Coastal and Eastern regions under the MENR's "Environment Management and Protection" programme. The activity will be carried out by the Catchments and Natural Forest Conservation Department at the MENR and is estimated to cost a total of Ksh 5 million funded on a 50/50 basis by the MENR and UNDP (as revenue). GOK's contribution will be financed from Exploration and Mining License Fees collected by the MENR as local Appropriations-In-Aid, AiA. UNDP's funding will be provided under its Africa Adaptation Project (AAP) Programme. The monies will be spent on travel, accommodation and consultancy costs. 75% of this amount was to be transferred to three counties for implementation of specific programme activities.

A. Upon receipt of all GoK and UNDP contributions, the MENR records the transaction in IFMIS as follows

			GOK	UNDP
Segment 1	Class	1 digit	2 (Revenue)	2 (Revenue)
Segment 2	Vote	3 digits	121 (MENR)	121 (MENR)
Segment 3	Administrative	9 digits	121001000 (Catchments and Natural Forest Conservation)	121001000 (Catchments and Natural Forest Conservation)
Segment 4	Source of Funding	8 digits	00002001 (Domestic Revenues collected as AIA (Local AIA))	11517063 (UNDP's Africa Adaptation Project (AAP)) – External Resources-Grants, Revenue, Bilateral Development Partners
Segment 5	Programmes (new)	6 digits	100700 (Environment Management and Protection)	100700 (Environment Management and Protection)
Segment 6	Economic Items	7 digits	1140509 (Exploration and Mining Licence Fees)	1320101 (Current Grants from International Organisations)
Segment 7	Geographical Location (new)	7 digits	0000000 (Nation-Wide)	0000000 (Nation-Wide)
Full Code			2-121-121001000-00002001-100700-1140509-0000000	2-121-121001000 -11517063-100700-1320101- -0000000

While the SCOA and IFMIS provides a good step towards tracking climate finance including some climate change-related indicators; they are inadequate to fully track climate actions for a number of reasons. Currently, there are no agreed adaptation indicators at the international level. Kenya is still seeking to create an effective monitoring tool within the existing Integrated Financial Management Information Monitoring System (IFMIS) and the National Integrated Monitoring System (NIMES) as a requirement of the climate finance policy. In addition, a significant amount of climate finance does not pass through the National Treasury's IFMIS system e.g. funds for CSOs, private sector, development partners etc. Concurrently, specialised government agencies including some parastatals such as Teachers Service Commission (TSC), KenGen, Kenya Power and Lighting Ltd, among many others use other accounting system different from IFMIS, hence, the need for more integration of tracking tools.

The country made progress under NCCAP 2013–2017 and the NAP 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, given that different groups perceive and experience adaptation differently depending on the context. Again there are many other variables playing into this process such as duration and scale. Furthermore, the skillsets needed for tracking and coding climate finance remain a challenge as the exercise requires integrated skills encompassing both climate and accounting. So to effectively implement and develop this capacity within both Planning Ministry and the National Treasury and the Climate Change Directorate is key.

4.2. Technical Monitoring, Reporting and Verification (MRV) of Climate Finance

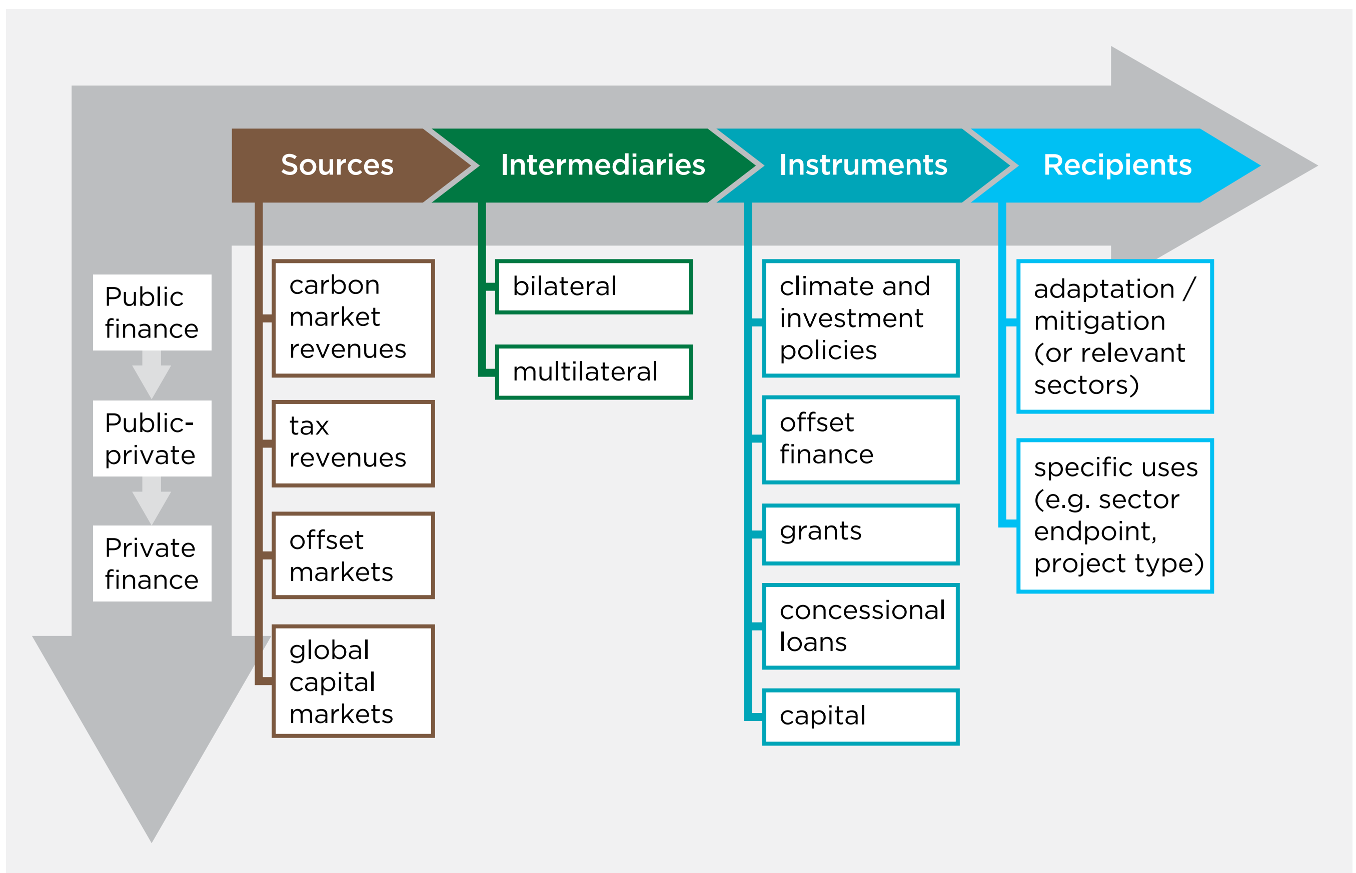
Technical MRV is a key component of climate financing given that much of climate funding is linked to carbon credits achieved through reduced GHG emissions. Financial tracking goes hand in hand with Kenya's MRV+ system which will be developed in a phased approach over the 2018-2022 period. Initial action will improve measurement of adaptation outcomes including identification of indicators to measure climate-related impacts and collection of baseline data. Measurement, Reporting and Verification (MRV) is a term used to describe all measures which countries use to collect data on greenhouse gas emissions, mitigation actions and support; to compile this information in reports and inventories, and to subject these to some form of international review or analysis. The NCCAP proposed an integrated MRV+ framework for Kenya to measure, report on and verify the results and impacts of mitigation, adaptation and climate finance actions and the synergies between them.

5. Climate Finance Windows in Kenya

Between 2005 and 2015 the Government of Kenya (GoK) committed approximately Ksh 37 billion (USD438 million) while development partners committed Ksh 194 billion (USD2.29 billion) to programmes deemed to have a significant climate change component.[34] A multiplicity of climate finance windows exist in Kenya. The country has been drawing funding from both global multilateral and bilateral funds as well as domestic sources such as national budgets, private sector investors and various non-state actors.

There are more than 40 multilateral and bilateral climate funds and programmes that are active in the sub-Saharan region. Monitoring flows of climate finance continues to pose challenges, as there is no agreed definition of what constitutes climate finance or consistent accounting rules. The wide range of climate finance mechanisms continues to challenge coordination. But efforts to increase inclusiveness and complementarity as well as to simplify access continue earnestly. Kenya will need to leverage more funds from both multilateral and other bilateral sources, including new donor countries such as China, Saudi Arabia, Brazil and India.[35]

Figure 6: Climate finance windows accessible to Kenya (Source: Buchner et al., 2011)



34 NCCAP (2018-2022)
35 NCCAP (2018-2022)

5.1. UNFCCC Funding Windows - Global multilateral funds

5.1.1 The Green Climate Fund

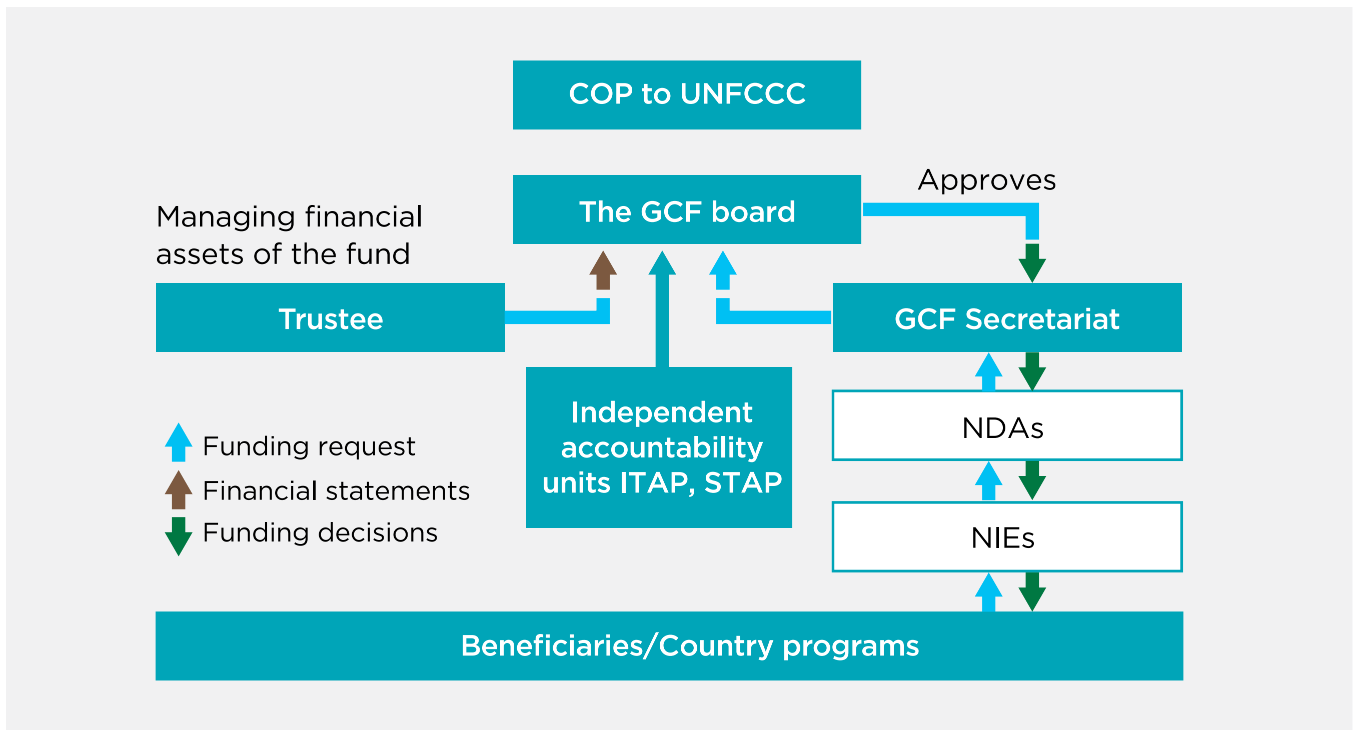
The Green Climate Fund (GCF) is the main financial climate window under the Paris Agreement. The GCF was established in 2010 in Cancun, Mexico as a financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC). The fund's main goal is to promote low emission and climate-resilient development in developing countries. Kenya is among the few countries that are first beneficiaries of the GCF which became operational in 2013. However, nine years since establishment of the GCF, most of the African counties including Kenya are yet to access it as envisaged. It has been argued that the low level of access to the GCF are largely due to lack of technical and institutional capabilities on best practices that could enhance the writing of competitive proposals and their execution, whilst lessons learnt from the Clean Development Mechanism (CDM) are not being incorporated into the GCF projects.

Currently the fund has received USD10.3 billion in pledges and USD9.9 billion in signed contributions. It has also set aside a readiness support fund for up to USD50 million and USD40 million for project preparation. The fund allocation is split 50/50 between adaptation and mitigation but also considers geographical balance. The fund can also finance a diversity of other activities such as pre-project planning and capacity building and this is a good opportunity for Kenya to tap into and develop its systems.

Ideally, engagement with the GCF entails a number of well-defined processes that begin with establishing national systems and submission of proposals in line with set procedures. Figure 7 shows the framework involved in accessing GCF funding. A country is first expected to be a signatory to the Paris Agreement and should establish a National Designated Authority (NDA) which in Kenya's case is the National Treasury. The NDA's main roles include recommending funding proposals to the GCF board, facilitating the communication and nomination of national accredited/implementing entities (NIEs) to support the funding procedure and ensuring that activities within a country are aligned to national development visions. Beneficiaries interested in the GCF, including businesses, NGOs, and industry among others submits their proposals through the Accredited Entities (AEs). The AEs undertake initial technical assessments of proposals which are then submitted to the GCF Board for a decision. Designing competitive and bankable proposals require consideration of best practice and a diversity of expertise. Bankable proposals should incorporate the six GCF investment criteria: impact potential; paradigm shift potential; sustainable development potential; responsiveness to recipient's needs; the ability to promote the country's ownership and to show efficiency and effectiveness. These proposals further require political commitment as well as availability of funding resources for project preparation.

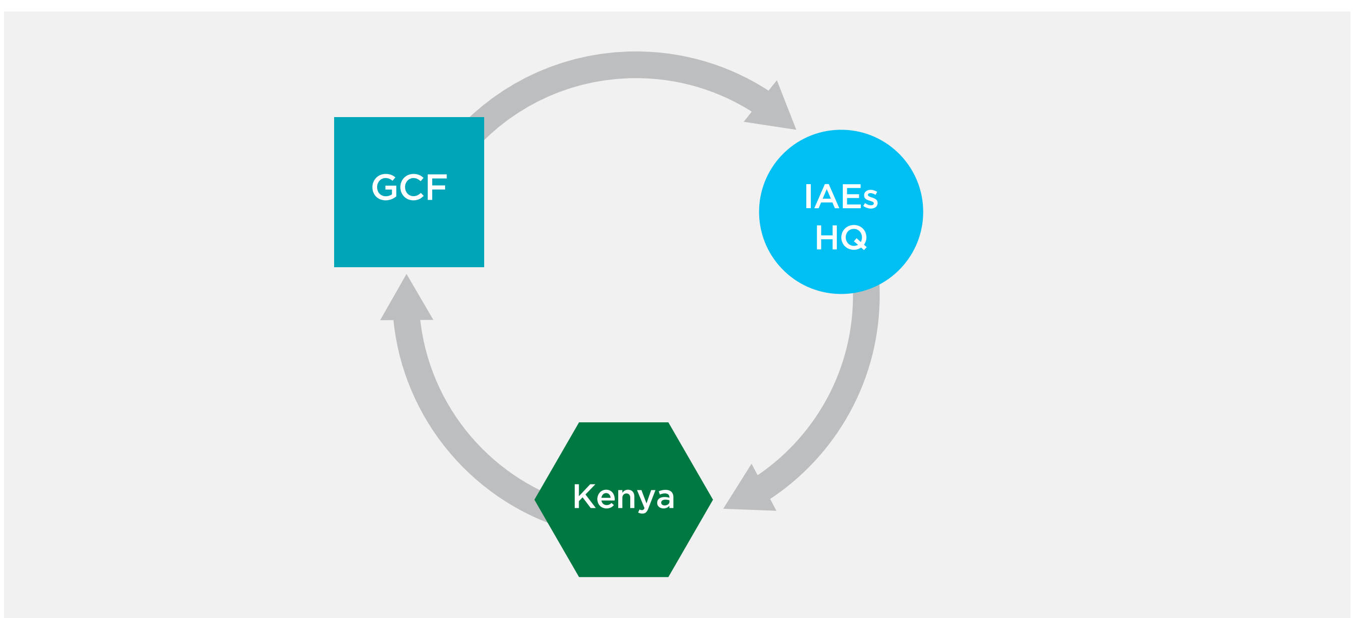
The AEs are expected to receive these proposals, assess them based on established procedures and submit to the GCF board which makes decisions based on the assessments by other independent bodies. The GCF board either approves the proposals or provides an approval that is conditional on modifications to project design, or is subject to availability of funding, or it rejects the proposal. The decision and next steps are communicated to the AE or intermediary and the NDA or focal point. Rejected proposals can be appealed or re-submitted. The GCF board itself comprises of 24 members, equally drawn from developing and developed countries. In addition, there are special representatives from regional UN groupings, such as SIDS and LDCs. Decisions on proposals are made based on consensus with a one-third quorum. The overall GCF process is therefore fairly long and subject to bureaucratic and politically sensitive procedures.

Figure 7: GCF funding assessment procedures. Source: Developed by Authors



There remain major concerns around this very slow GCF process that has impeded countries such as Kenya from fully accessing the funds. For example the jurisdiction under which indirectly accredited entities work need to be re-looked at as it is already creating duplication and bureaucracy as well as interfering with smooth flow of funds under the GCF arrangement. For instance, funds meant to implement activities in developing countries such as Kenya is first transferred to the headquarters of the indirect access entity and then re-routed to the country as shown in figure below.

Figure 8: Flow of funds under the GCF arrangement



Nonetheless, to date, Kenya has made significant progress in the GCF journey. The country has already established a functioning NDA based at the National Treasury and through which two entities have been accredited: NEMA; Acumen Fund Inc.; and Kenya Commercial Bank (KCB) is at stage three. NEMA has been granted direct access accreditation based on its experiences and systems in managing the Adaptation Fund. A number of other agencies have also been nominated and are currently undergoing GCF assessment: Geothermal Development Company (GDC); Cooperative Bank of Kenya; Green Earth Trust; KIRDI; African Centre of Technology Studies (ACTS); One Acre Fund; East African Development Bank (EADB); Kenya Red Cross and the Council of Governors.[36]

The country currently has eight approved GCF projects worth USD2.839 billion, but many are multi-country. Two are readiness projects, one is an institutional readiness for the adaptation plan and the other is financial readiness led by the AfDB and operates in multiple countries (see Table). The rest of the projects are mitigation and adaptation projects spanning regional, national and sub-national scales. While these projects have been approved, a number of them still have to go through due diligence, meaning these funds are yet to be released. The country also has many projects in the pipeline (see Annex 1).

36 Other global accredited entities include: UNEP, UNDP, WWF, KfW, World Bank, FAO among others

Table 1 Approved GCF projects in Kenya[37]

Project Name	Accredited Entity	Executing Entity	Project Size (million USD)	Project Area	Status
GCF NAP Readiness Programme	FAO	Min. of Environment & Forestry; National Treasury	3	Kenya	Approved; Disbursed
Global Energy Efficiency and Renewable Energy Fund (GEERF) NeXt	EIB	Ministry of Energy	765	Multi Country	Approved in 2017
KawiSafi Ventures Fund	Acumen Fund Inc.	Acumen Capital Partners LLC.	110	Kenya, Rwanda	35% Disbursed
The Universal Green Energy Access Program (UGEAP)	Deutsche Bank	Ministry of Energy	301.6	Multi-Country	Approved in 2017
Climate Investor One (CIO)	FMO		821.5	Multi-Country	Approved in Nov 2018
Transforming Financial Systems for Climate (TFSC)	AFD		745	Multi-country	Approved in Nov 2018
Promotion of Climate-Friendly Cooking	GIZ	Ministry of Energy	58.8	Kenya, Senegal	Approved in Feb 2019
Towards ending drought emergencies: Ecosystem based Adaptation in Kenya's arid and semi-arid rangelands (TWENDE)	IUCN	Ministry of Agriculture & Irrigation; NDMA	34.5	Kenya	Approved in July 2019
GCF/GIZ Readiness Support	UNDP/WRI/UNEP	NDA	1.35	Kenya	2015
ARAF	Acumen	Acumen	58.7	Kenya, Nigeria	2018
GCF/PPF	NEMA		0.339	Kenya	2018

37 https://www.greenclimate.fund/countries/kenya

Kenya has so far received funds from the GCF that are second only to Egypt in comparison with other African countries. This performance can be enhanced by coordination and capacity to competently design funding programmes. Indeed the recommended investments in software, including policies and institutional arrangements, is commendable but clear gaps still exist in the hardware, including technical capacity and competency in developing innovative funding initiatives that need to be addressed. 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.

There are also various institutions that have played a critical role in the climate change architecture with regards to the technology mechanism of the GCF that links NDCs to technology and finance. For instance, innovations that seek to enhance development of bankable proposals to the GCF have been developed using the Climate Relevant Innovation System-Builders (CRIBS).[38] The African Centre for Technology Studies (ACTS), a pioneering pan-African intergovernmental organisation, together with its development partners, the Africa Sustainability Hub and the University of Sussex, developed the CRIBS mechanism. It is a systems-based model that provides for a network of actors, capabilities and systems that support incubation, implementation, scalability and sustainability of project initiatives while incorporating the theory of change in its engagements with various actors to develop bankable proposals to the GCF. CRIBS further seek to enhance collaborations and capabilities and allow professionals and policymakers within the climate change sphere to develop viable funding proposals.

5.1.2 UNFCCC Financing Mechanism: the GEF

The Global Environment Facility (GEF) was established on the eve of the 1992 Rio Earth Summit. Since then, the GEF has provided USD14.5 billion in grants and mobilised USD75.4 billion in additional financing for almost 4,000 projects. The GEF also serves as financial mechanism for several conventions including the Convention on Biological Diversity (CBD), the Stockholm Convention on Persistent Organic Pollutants (POPS), the UN Convention to Combat Desertification (UNCCD) and the Minamata Convention on Mercury. A key element of the GEF is that it focuses on supporting environmental projects but with clear climate change outputs.

The types of climate finance available vary from grants and concessional loans to guarantees and private equity. The GEF has a long track record in environmental funding. As of March 2017, the GEF's cumulative funding approval amounted to USD4.7 billion. The GEF also administers the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) under the guidance of the UNFCCC Conference of Parties (COP). By October 2017, the LDCF and SCCF had made cash transfers to projects of USD493 million and USD201 million, respectively. To date, Kenya has drawn considerable funding from the GEF (see Figure 5).

5.1.3 UNFCCC Financing Mechanism: the Adaptation Fund

The Adaptation Fund (AF) finances projects and programmes that help vulnerable communities in developing countries adapt to climate change. Initiatives are based on country needs, views and priorities. The AF was established under the Kyoto Protocol of the UNFCCC and has committed USD354.9 million in 61 countries since 2010. NEMA was accredited as the AF implementing entity for Kenya and was approved for funding to the tune of USD10 million. Linked to the UNFCCC, the AF had awarded total cash transfers to projects of USD237 million by the end of 2017.

38 Ockwell, D., & Byrne, R (2015)

The AF also operates under a similar structure as the GCF and GEF by requiring recipient countries to access the fund through national implementing entities (NIEs). Since 2010, The fund has committed USD338.5 million to support 61 countries, including 22 LDCs and 13 Small Island Developing States. The Adaptation Fund Board and Adaptation Fund Committee are responsible for managing the receipt and disbursement of funds to various adaptation initiatives. Following a similar model as the GEF, interested institutions send proposals to the NIEs using project proposals based on guidelines developed by the NIEs. The NIEs then make the decisions as to who receives the funds. The transactional costs of applying for these funds have, however, often been too high for local communities that are strained in resources and technical capacity. Through the Adaptation Fund, Kenya has prepared national adaptation and local adaptation plans through which funds are drawn from the global source and disbursed to local communities.

It is worth noting that the opportunities for accessing multilateral funds, which Kenya can take advantage of have been significantly enhanced under the UNFCCC through specific provisions of the Paris Agreement. Some of the provisions include:"Shared responsibility"where all countries establish mitigation and adaptation targets with developing countries such as Kenya now having established NDCs as instruments for meeting the targets. The NDCs help define innovative programmes and areas that could attract funding from these sources. Diverse funding windows – eg the GCF can finance pre-project preparation, capacity building and project implementation thus providing a diverse range of choices. There is also a capacity building provision under the Paris Committee on Capacity Building to understand and support capacity needs for developing countries including how to develop competitive bankable projects. Most importantly, Kenya can also leverage on the technology opportunities and skill development agenda of the new climate change policy. Under the Paris Agreement, the Technology Executive Committee (TEC) of the UNFCCC has established a work stream on "strengthening innovation systems (IS) for climate technology transfer (TT) and development." These and other complimentary initiatives represent a significant opportunity for Kenya to leverage support via the UNFCCC and other development agencies to strengthen their capabilities around climate technologies in ways that will underpin effective design, lobby for and implementation of technological decisions that resonate with Kenya's circumstances.

5.2. Non-UNFCCC Mechanisms

There also independent funding windows, ie non-UNFCCC funds designed either for multilateral or bilateral arrangements. The multilateral non-UNFCCC funds are mainly designed by international development agencies such as the World Bank's Forest Carbon Facility and the UNDP (USD3.8 million). These are mobilised from various sources including governments and the private sector. Within the non-UNFCCC window, a number of developed countries have established bilateral funds designed to support both climate change and development actions in specified developing countries.

5.2.1 Multilateral Development Banks

Multilateral Development Banks (MDBs) play a prominent role in delivering multilateral climate finance, with global climate finance commitments of USD27.4 billion made in 2016 alone. Many have incorporated climate change considerations into their core lending and operations, and most MDBs now also administer climate finance initiatives with a regional or thematic scope. The World Bank's Carbon Finance Unit has established the Forest Carbon Partnership Facility (FCPF) to explore how carbon market revenues might be harnessed to reduce emissions from deforestation and forest degradation; forest conservation; sustainable forest management and enhancement of forest carbon stocks (REDD+). The African Development Bank also finances enhanced climate finance readiness in African countries through the German-funded Africa Climate Change Fund (ACCF), whose first projects were approved in 2015. The African Development Bank is also the trustee for the Africa Renewable Energy Initiative (AREI) and will house the AREI Trust Fund with an expected USD10 billion in resources.

Both MDBs and UN agencies act as implementing entities for the GEF, SCCF, LDCF, AF and the GCF. The UN-REDD programme, made operational in 2008, brings together UNDP, UNEP and the FAO to support REDD+ activities. The International Fund for Agriculture and Development (IFAD) administers the Adaptation for Smallholder Agriculture Programme, which supports smallholder farmers in scaling up climate change adaptation in rural development programmes.

A substantial volume of climate finance has been channelled through institutions that are not directly under the guidance of the UNFCCC COP. The Climate Investment Funds (CIFs) established in 2008 are administered by the World Bank but operate in partnership with regional development banks including the African Development Bank (AfDB). The CIFs include a Clean Technology Fund with USD2.75 billion in cash transfers to projects by October 2017, and a Strategic Climate Fund (SCF), with USD856 million in cash transfers to projects as of October 2017. Kenya is currently implementing various projects under this remit including a climate-smart agriculture programme supported by the World Bank and the UN-REDD+ programme.[39]

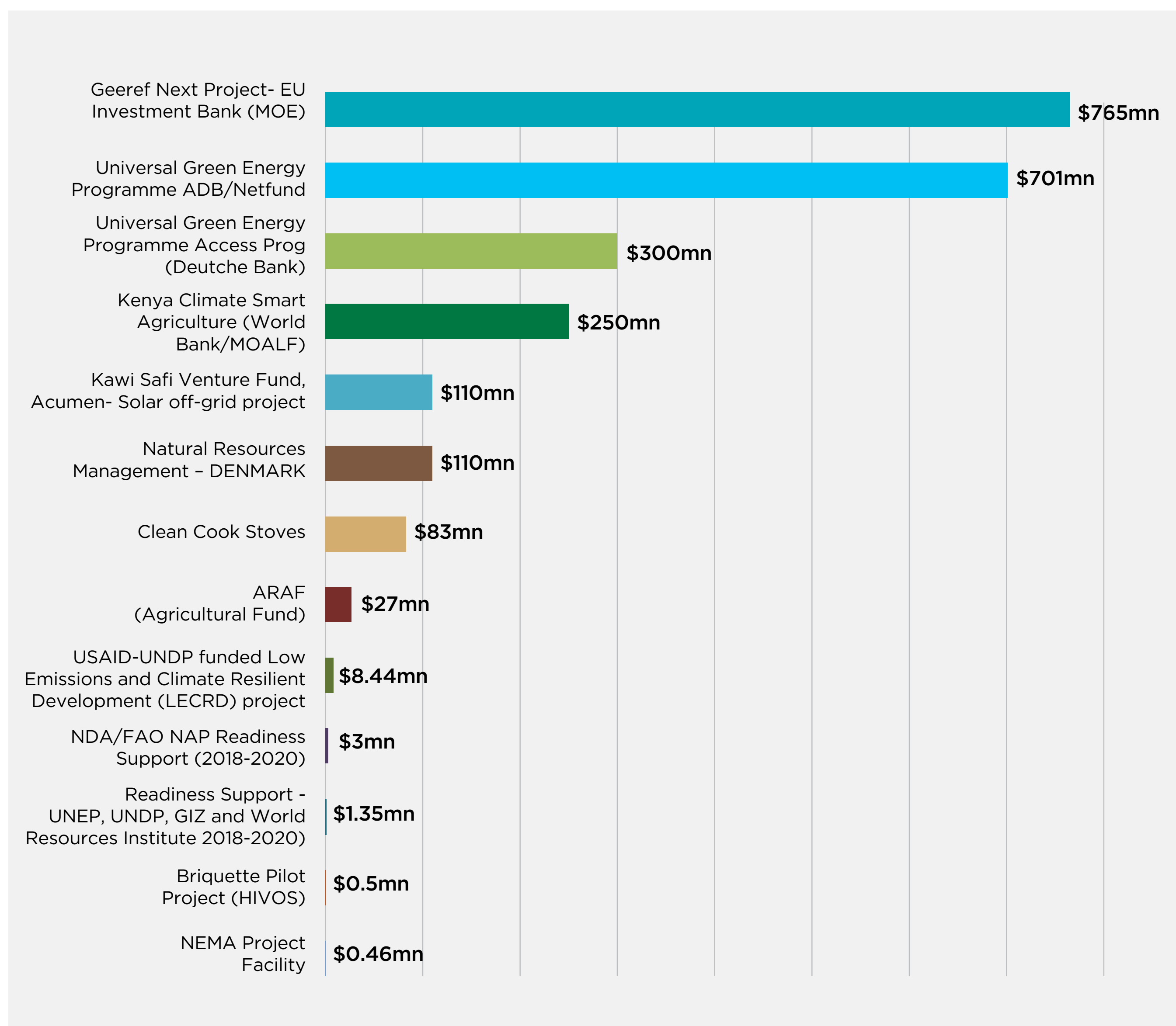
5.2.2 Bilateral Funds

There are a number of bilateral funds established by developed countries to help finance developing countries in line with the Paris Agreement commitments. As of April 2017, Germany's International Climate Initiative had provided USD2.7 billion for more than 500 mitigation, adaptation and REDD+ projects since its establishment in 2008. The UK government has committed USD12.7 billion to its International Climate Fund (ICF) through to 2021, and so far, has channelled a substantial share of ICF money through dedicated multilateral funds, including the CIFs and the GCF. Together with Germany, Denmark and the EC, the UK also contributes to the Nationally Appropriate Mitigation Actions (NAMA) facility. Germany, the UK and Denmark also support the Global Climate Partnership Fund (GCPF). Germany and the UK also support the USD141 million REDD+ Early Movers Programme (REM). Norway's International Forest Climate Initiative has pledged USD377 million each year since 2008 through bilateral partnerships, multilateral channels and Civil Society.

While the wide range of funding channels increases options and possibilities for Kenya to access climate finance, it nonetheless makes the process more complicated. Improving access to climate finance from the various sources requires a robust and efficient legal and institutional framework as set out in the Climate Finance Policy. Each component of the national finance system, such as budgeting, institutions and policy, has a role to play in the creation of an enabling environment for climate finance. In addition, Kenya needs to develop expertise and capacity to know where to target efforts to access climate finance.

39 Atela et al. 2016

Figure 9: Bilateral climate finance projects in Kenya



5.3. Private Sector Funding

To improve the financial flow for Kenya's climate finance, private sector involvement is central. Kenya strives to promote programmes that unleash private sector finance. In comparison with a number of countries, Kenya is better placed for private sector investments on low carbon due to its high GDP; energy demand and growth; excellent renewable energy resources; high energy-efficiency potential and favourable and well-developed regulatory context. Estimates indicate that both domestic and international investments in the private sector in renewable energy in the country are estimated to be over USD2.8 billion.[40] More specifically, the private sector is investing heavily in geothermal activity, biomass, solar and small hydroelectric projects and is increasingly engaged in providing financial and insurance services.

40 NCCAP (2018)

The unlocking of private sector investment in Kenya has been encouraged through various fiscal incentives. For example, importing, constructing and selling photovoltaic cells are exempted from duty and tax, and the government has given ten-year tax holidays for small-scale solar projects. The government can consider additional economic and financial instruments to leverage private sector investments into low-carbon and climate-resilient initiatives. These include guarantees to enable small- and medium-sized enterprises to access funds from financial institutions; and guarantees, insurance and concessional loans to address barriers associated with risky investments and upfront costs.

Despite enormous capability of the private sector, the country still faces difficulties in accessing finance from domestic banks whose risk aversion and limited understanding of low-carbon opportunities result in high interest rates as well as high collateral requirements while equity funds are scarce. Moreover, limited technical capabilities in Kenyan firms, especially the smaller ones, mean that they experience challenges when it comes to conducting feasibility studies as well as limited understanding of financing models. The GoK has been undertaking reforms to ameliorate policy and regulatory environments for renewable energy and energy efficiency, which has led to enactment of the Energy Act 2018.

While carbon markets remain an opportunity in which to explore private sector investment, future carbon market conditions appear to be unstable for Kenya due to a combination of unfavourable demand and supply balances globally which have already led to low carbon credit prices. The prospect of the carbon credits from Kenya being excluded from the European Union Emissions Trading Schemes (EU ETS) for projects registered after 2013 is likely to make the context challenging and requires urgent government involvement to rectify this.[41,42] A primary carbon trading platform would be more appropriate for Kenya's needs in the current market context as this facilitates the origination of carbon credits from individual projects, as opposed to a secondary platform that allows trading on a larger scale, while treating carbon credits as a uniform commodity. To improve overall market conditions for Kenyan carbon market projects, there need to be strategic negotiations with the European Union with regards to the eligibility for credits from EU Emissions Trading Scheme for Kenyan projects registered after 2012 and discussions with Japan on its bilateral offset credit scheme.

It is important for Kenya to be well positioned to act on emerging carbon market opportunities and to benefit from results-based payment mechanisms. Measures have been put in place to support engagements in the development of new market mechanisms under the UNFCCC as well as to develop clarity on the treatment of emission reductions in Kenya.[43]

More broadly, Kenya has an opportunity to tap into emerging private sector initiatives at the global level. Notable is the adoption of the Enhanced Direct Access (EDA) model of the GCF, which builds upon and advances the Direct Access (DA) model of the Adaptation Fund. The EDA seeks not only to devolve access, but also decision making on financing climate projects by the National Implementing Entities. In 2011/2012, the UNFCCC Secretariat launched the Adaptation Private Sector Initiative (PSI) database, a new online tool that showcases how businesses and communities can adapt to the inevitable aspects of climate change (see Figure 10). The PSI features good practices and profitable climate change adaptation activities being undertaken by private companies (sometimes in partnership with Non-Governmental Organisations [NGOs] or the public sector) from a wide range of regions and sectors. The database lists over 100 case studies on private sector engagement in climate change adaptation from developed and developing countries. The adaptation activities

41 NCCAP 2013-2017

42 The high standards requires for results based funding and MRV systems for Kenya as well as oversupply of credits could create still completion.

43 NCCAP (2018-2022)

listed include: those that ensure access to safe and clean water; building resilience of business operations to disasters; provision of technologies or services that assist in the adaptation in vulnerable communities; increase of agriculture yields in climate-vulnerable areas; the development of climate-friendly goods and services and climate proofing the supply chains of companies.

Figure 10: UNFCCC Private Sector Initiative (PSI) platform for businesses Source: http://unfccc.int/adaptation/workstreams/nairobi_work_programme/items/4623.php

Although Corporate Social Responsibility (CSR) is becoming more prevalent across the world, few companies are devising comprehensive CSR strategies to guide proactive contributions to national development goals and sustainable development, and to tackle development challenges such as vulnerability to climate change. Many companies in Kenya report significant expenditure on communities or CSR programmes, and present case studies of some of their programmes. Companies have made community investment initiatives a long-term strategy. Through their products and services, policies, and practices, companies seek to make a positive impact based on a sound understanding of development priorities of the people living in those communities. However these CSR activities are an opportunity for funding climate change in Kenya.

5.4. Green Bonds

Kenya has established systems to tap into the global green bond market which has grown tremendously in recent years, with issuances totaling USD155.5 billion in 2017 and an estimated USD250-$300 billion in 2018.[44] Green bonds are regular bonds[45] which generate proceeds that are earmarked exclusively for projects with environmental benefits, including climate change mitigation or adaptation, but also natural resources depletion, loss of biodiversity, and air, water or soil pollution. The Green Bond initiative was launched in Kenya in March 2017 and builds on the policy framework under the Kenya Green Economy Strategy and Implementation Plan (GESIP) 2016–2030 which has committed to invest USD23.5 billion in Kenya's green growth path. Through the Green Bonds Programme Kenya, the National Treasury has indicated that its debut sovereign green bond will be issued during the fiscal year 2019/20, making Kenya the first country in East and Central Africa to issue a green bond. Kenya plans to reinvest the proceeds from green bond in green projects and their related expenditures, such as R&D.[46]

44 Government of Kenya (2017): https://www.nse.co.ke/products-services/debt-securities/the-green-bond.html
45 Bond, also known as a fixed-income security, is a debt instrument created for the purpose of raising capital - essentially loan agreements between the bond issuer and an investor
46 Government of Kenya (2018) https://www.nse.co.ke/products-services/debt-securities/the-green-bond.html

5.5. Domestic Public Funds

5.5.1 National Climate Fund

At the national level, countries have developed national and sub-national institutions to facilitate and enhance access to international funds. The Kenya Climate Change Fund (KCCF) has been established within the National Treasury to be a link between the global funding mechanisms and national processes. The National Climate Change Fund applies a variety of financial instruments including loans, grants or equity for climate change research and innovation, in climate-relevant areas such as industrial research, technological research, policy formulation, academic research and development in green technologies. Additionally, these funds are disbursed to various agencies such as businesses, civil society and industry among others for the purposes of implementing mitigation and adaptation actions. In addition, the fund is spent in capacity building and technical assistance to county government and other stakeholders.

The Kenya Climate Change Fund and seed money of Ksh 500 million from the National Budget has been factored in to the 2019/20 financial year. Additionally, Ksh 200 million has been allocated annually for a period of five years to operationalise the National Policy in Climate Finance, to promote green economy low-emission investment and build the country's adaptive capacity within the line ministries, county governments and local communities. According to the Climate Finance Policy, all 47 counties will be required to develop a county-based Climate Finance Policy and establish a County Climate Change Fund.

Overall, there are a number of climate financing mechanisms and windows available to Kenya including the GCF, GEF and a host of other international funds outside the UNFCCC, in addition to domestic sources such as national budgetary allocation. While Kenya appears to be making progress in establishing policies and institutions to tap into some of these funds, especially the GCF, the country is yet to fully explore and utilise some of the funds. This is due to a number of reasons, but most prominently limited technical capacity to develop relevant projects. The need to enhance such capability is critical for Kenya even as the country embarks on implementation of various policy frameworks. Efforts by the National Treasury through the Climate Finance Unit to build capacity of counties are indications of good progress but these could be strengthened technically so that such trainings can transition from being more awareness of creation to long-term integrated competency and hands-on capability building. The capacity gap within counties, ministries, companies and CSOs also manifests as lack of adequate investment in research and development, product development and all other aspects of innovation critical for propelling the climate change agenda forward.

During a meeting/training of AU Member States in Abuja in 2018, most NDAs expressed concerns that capacity building for climate finance has been ad hoc, uncoordinated and short-term in nature. Therefore, moving forward in the longterm, in a five to ten-year programme, targeted trainings are required on different components of GCF and other climate funds to support member states throughout the GCF process, from readiness to project development and implementation. Furthermore, Kenya could gain from development of information-sharing platforms (both digital and physical) for sharing GCF and other climate financing information, best practices, success factors, etc. Kenya could further benefit from establishing an enhanced Expert Registry to provide pathways for harnessing local competence in various aspects of climate financing. However, there are emerging centres of excellence and institutions for capacity building such as universities, but these will need to be tailored for specific competencies.

6. Conclusions and Recommendations: Future of Climate Finance in Kenya

The experience with Kenya's finance mechanism show that the country has a huge opportunity to develop a robust climate system and become a regional leader in climate financing. So far, the country has made good progress in terms of setting up policies and institutional arrangements to help mobilise, allocate and monitor climate finance. The various policy instruments set out by the government to enhance processes of climate financing paints a picture of 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 implemented through public–private partnerships.

While this institutional setup provides a framework for tapping into diverse funding sources, especially enabling flow from the global to national, internal mechanisms and flow of funds could be enhanced through 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 a 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.

Despite the relatively well-established national systems, the country still faces some challenges in managing diverse sources of climate finance. More specifically, monitoring, evaluation implementation and the impact of climate change interventions remains weak. Mechanisms to identify the sources and track how the finance has been utilised have still not been actualised, yet these are international standards required in climate finance and this may prevent the country from accessing some funds. The NACCP 2018–2022 sets out when these mechanisms should be developed but this is still a long way off and requires sufficient political funding to actualize. Enhanced political will is needed to ensure that these goals are not pushed to the next climate action plan. Improved tracking of climate change-related inflows and expenditures should be integrated into national budgetary processes, including identification and coding of climate change expenditure.

Furthermore, despite a robust national institutional framework, there is need for key institutions to engage in clear communication on progress and give regular updates for accountability purposes such as Office of the Auditor General, Ethics and Anti-Corruption Commission etc. The national and county governments, the private sector, academia and civil society have a large enough reach to channel climate finance initiatives. However, potential implementing and executing entities have limited capacity to deal with eligibility criteria and modalities of various funds.

Devolution of climate funds remains a major component of climate financing because this will help ensure that resources reach where they are needed most. However, there is a need to enhance the institutional connection between national government and sub-national level as this currently remains weak. While county governments provide a good opportunity to create institutional linkages for devolving funds from the national to local, there are no clear linkages between national climate financial mechanisms and county ones. There is a need to create clear structural linkages between the National Climate Finance Unit and the county climate change funds at county treasuries. Currently the Ministry of Devolution and Arid and Semi-Arid Lands (ASALs) has developed a scale-out strategy for CCCF to be implemented by the National Drought Management Authority. This strategy has been signed off by the Ada Technical Committee and is now awaiting final sign off by the Cabinet Secretary of the Ministry of Devolution and ASALs prior to its formal launch and issuance of a government circular.

This should include upscaling the county climate finance units across the 47 counties and appointing a county liaison officer to support the linkages. In addition, capacity building and awareness programmes for counties are still critical to help them understand available funding opportunities. Already the National Climate Finance Unit has been making efforts towards these actions and this should be strengthened further by enhancing its mandate for crosscutting oversight. It is possible that this linkage could catalyse broader opportunities for international climate financing to reach local institutions, such as in the case of the County Climate Change Funds (CCCFs), which provides an important opportunity to build capacities of these local institutions. This includes enhancing capacity of local institutions to manage climate funds and related projects, which is key to enabling local communities to access a wider variety of funds and funding instruments.

Access to private capital flows, which account for a significant proportion of international and domestic climate finance flows, is crucial for Kenya. The private sector is risk averse and the country requires an enabling environment that minimises any real or perceived risks. In addition, Kenya needs policies and programmes that use public climate funds to leverage large investment from the private sector, and sound institutional processes and investor promotion activities need to play a central role in successfully attracting funding. The National Treasury and line ministries have a tremendous role to play to ensure capacities of responsible institutions and stakeholders are developed to ensure the country benefits from the private investments. Most importantly financial markets and instruments, and organisations that interface local communities with such markets and instruments can provide an important source of investments in devolved systems. However, these need to be undertaken in tandem with safeguards to protect local communities from risks inherent in such markets and instruments, and by enhancing the capacity of the local communities to effectively engage in these partnerships.

NIE accreditation such as that required by the GCF requires adherence to strict fiduciary standards and environmental safeguards, including greater transparency of financial management systems, more robust risk management systems, and more regular reporting requirements. Extensive capacity building is required, particularly in fiduciary management skills, to enable institutions to disburse, absorb, report and manage large projects and large funds in a transparent and accountable manner as well as ensuring that more NIEs are accredited.

While carbon markets are currently weak, much private sector investment is expected to eventually flow through carbon market-based mechanisms such as REDD+ and any new mechanism that may be agreed upon under the UNFCCC Article 6 is welcomed. This requires that Kenya be an active participant in the international negotiations on climate finance and new market mechanisms to remain informed and well positioned to act on opportunities as they arise. Efforts to incentivise carbon-voluntary market projects should be considered, as these projects can serve as a source of experimentation and innovation to prepare for future mandatory carbon market mechanisms. The viability of compliance and voluntary carbon market activities will depend on the security of property rights surrounding the assets, the taxation regime and financial services arrangement of the transactions, and costs involved in complying with additional regulation, such as environmental approvals and project approval processes.

Continuous research and innovation into climate adaptation and mitigation and the diffusion of local technologies requires an enabling investment environment which climate finance can support and this requires incentives from both public and private sectors. Research and innovation will play a key role in climate change adaptation and mitigation strategies and interventions. Training and deployment of green champions as citizens watchdogs at sub-national and local level will be key in ensuring local level accountability and transparency. The complex and dynamic nature of climate change and its impacts requires Kenya to expand and maintain systems for targeted and continuous innovation, including development of locally contextualised technologies. Capacity building in both short-term and long-term for both national and county entities and other stakeholders in climate finance is critical if progress is to be actualized and accelerated in line with the future ambitions.

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Annex 1: GCF projects in the pipeline

Title of Project	Accredited Entity (AE)	lead Executing Entity (EE)	Project Size (million USD)	Project Area	Status
Transforming Landscapes of Livelihoods in Kenya through a Water-Agriculture-Energy Nexus Approach	FAO	Ministry of Agriculture and Irrigation	250	Lake Basin	Full proposal
Enhancing Community Resilience through Tree Crop Based Livelihood Options in Makueni, Kilifi and Muranga Counties	NEMA	KEFRI	10	Makueni, Kilifi, Muranga	Full proposal
Enhancing the Resilience of Communities and Ecosystem in Athi River Catchment Area, Kenya	NEMA	Water Resources Authority (WRA)	10	Kiambu, Machakos, Nairobi, Nyandarua	Full proposal
Enhancing the Resilience of Smallholder Farmers in Kenya by Promoting CSA along Value Chains in Targeted Counties	NEMA	KALRO	10		Full proposal
Catalyzing REDD+ through large-scale private sector investment	Conservation International	KFS; Partner, Baker & McKenzie	61.8	Kenya, Cambodia	Full proposal
Strengthening County Governance to Access Climate Finance for Sustainable Development	NEMA	NDMA	10		Full proposal
Greening Kenya's Special Economic Zones (SEZ): Achieving the Competitiveness in the Face of Resource Scarcity and Changing Climate Regime	UN Environment	KIRDI	28.87	EPZs in Nairobi, Machakos, Kilifi, Mombasa, Kwale	Full proposal

Title of Project	Accredited Entity (AE)	lead Executing Entity (EE)	Project Size (million USD)	Project Area	Status
Electric Mobility - Introduction of Electric Motorcycles	UN Environment		84	Kenya, Ethiopia, Rwanda, Uganda	Concept Note (CN)
Low-emission and Climate Resilient Dairy Development Project in Kenya (Kenya Dairy NAMA)	World Bank	Min. of Agriculture; Kenya Dairy Board	287.7		CN
Kenya Off-Grid Solar Access Project (KOSAP) for Undeserved Counties: Clean Cooking Solutions for Households Component	World Bank	Ministry of Energy	8		CN
Reduction of Impacts of Climate Change in Slums and Informal Settlements		State Dept of Housing	307.7		CN
Enhanced Access to Financing for Green Water and Sanitation Technologies in Kenya	AfDB	Water Sector Trust Fund (WSTF)	150		CN
National Seed Collections for Climate Resilient-Agriculture in Africa (Seeds4Resilience)	KfW	Crop Trust; KALRO	107.9	Multiple countries	CN
Building Sustainable Community Resilience Against Climate Change		Kenya Red Cross		TBD	CN
140 MW Olkaria PPP Geothermal Power Project		KENGEN	630		CN
40 MW Seven Forks Solar Project		KENGEN	57	Embu	CN

The County Climate Change Fund (CCCF) mechanism is supporting county governments to mainstream climate change in planning and budgeting, 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.

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