

Kenya Green Finance Taxonomy

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First Edition
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Foreword

Climate change is currently the single greatest challenge facing humanity and the single biggest threat to all life on Earth ¹. Risks arising from climate change-related, unpredictable weather events and patterns, including prolonged droughts, devastating floods, wild forest fires, cause massive humanitarian crisis with detrimental impacts on economies, health, education, peace, and security.

Kenya and other African countries have borne the brunt of the impact of climate change notwithstanding the fact that Africa does not contribute significantly to the global volumes of greenhouse gases, which are responsible for the adverse consequences of climate change. The resultant socio-economic consequences of climate change ranging from loss of livelihoods, displacement, physical destruction of property, and forced migration pose significant challenges to the vision of global shared prosperity by 2030. Climate change therefore demands urgent and concerted action from all nations to transition to a global climate resilient green economy.

In tandem with the rest of the world, Kenya recognized Climate Change as a national socio-economic imperative that calls for concerted action among stakeholders. Kenya therefore subscribed to the United Nation's 2030 Agenda for Sustainable Development, and also ratified the 2015 Paris Agreement. In ratifying the Paris Agreement, the country made Nationally Defined Contributions (NDCs), submitted to the United Nations Framework Convention on Climate Change (UNFCCC) in December 2016, and further updated in December 2020 ². To meet the NDCs, various economic sectors have a role to play, including the financial sector.

The total funding required to implement climate mitigation and adaptation actions, under Kenya's updated NDCs, is estimated at USD62 Billion. Kenya has committed to mobilising 13 percent of this amount (approximately USD8 Billion), with the larger share (approximately USD54 billion) being funded through international support and the private sector.

Climate-related risks have assumed a significant position in financial risks in the financial sector. Crystallised climate-related risks can severely impact the safety and soundness of individual financial institutions and the entire financial system if not properly managed. Through its capital-allocation decisions, the financial sector in general, and in particular, the banking sector, can make substantial contribution towards effective climate change mitigation and adaptation through innovative financial solutions that channel capital in a sustainable manner.

In recognition of the importance of the financial sector in combating climate change, the Central Bank of Kenya (CBK) issued Guidance on Climate-Related Risk Management (the Guidance) in October 2021. The Guidance was intended to facilitate banks to incorporate climate-risk related considerations in their governance, strategy, risk management and disclosures frameworks.

¹ African Union (2023) The African Leaders Nairobi Declaration on Climate Change and Call to Action. Available at: https://www.afdb.org/sites/default/files/2023/09/08/the_african_leaders_nairobi_declaration_on_climate_change-rev-eng.pdf

² Institute for Global Environmental Strategies (2021) Kenya's Updated Nationally Determined Contribution (NDC) and JCM Activities. Available at: https://www.iges.or.jp/sites/default/files/inline-files/8_Ressa_Kombi_Kenya%27s_updatd_nationally.pdf.

A review of implementation progress of the Guidance by the banks showed significant progress in integrating climate-related risks in their governance and strategy frameworks. However, most of the banks are at initial stages in respect to risk management and disclosure frameworks. This mainly due to lack of a standardized framework for green finance including definitions of what qualifies as green as well as templates for disclosing and reporting climate-related risk exposures.

For the financial sector to effectively contribute to implementing the climate change agenda, there is need for a common understanding of what constitutes green finance as well as a standardised disclosure and reporting framework. Accordingly, CBK decided to develop a green finance taxonomy as part of its second-generation reforms on climate-related risk management.

A green finance taxonomy is a classification system that highlights, which investments are environmentally sustainable and, by extension, those that are not. It defines a minimum set of assets, projects, activities, and sectors that are eligible to be defined as "green" in line with international best practice and national priorities. It can be used by investors, issuers, and other financial sector participants to track, monitor, and demonstrate the credentials of their green activities in a more credible way.

CBK entered into an agreement with the European Investment Bank (EIB) in October 2023, for Technical Assistance (TA) to among others develop a Green Finance Taxonomy. EIB and CBK have worked together in developing the Kenyan Green Finance Taxonomy, that is benchmarked to experiences in jurisdictions that have made progress in this respect, in particular the European Union, and South Africa. The Taxonomy is intended to deliver a range of benefits to the Kenyan economy including:

- Serve as a reference for Kenya's transition to being a green economy. It will increase the consistency of green finance flows and align green products and financial allocations with internationally recognised standards.
- Enhance confidence of the users that taxonomically aligned economic activities meet a high threshold of commitment to climate change and support Kenya's trajectory towards a sustainable economy.
- Guide the financial sector with clarity and certainty in selecting green investments in line with international best practice.
- Being a tool for effective communication. The taxonomy establishes a shared language and enables transparent performance tracking and reporting.
- Reduces the costs associated with identifying which green investment is green and which is not.
- Increase trade and the flow of international capital because of the existing consistency between definitions with other taxonomies. This ultimately unlocks significant investment opportunities for Kenya in a broad range of green and climate-friendly assets. This will help to supplement public funding for climate mitigation and adaptation initiatives.

Acknowledgements

This project is implemented by a Consortium led by DAI in partnership with AETS and BBA.

The technical assistance operation is financed under the International Climate Initiative Fund (the “IKI Fund”), established with funding from the German Federal Ministry of Economic Affairs and Climate Action (“BMWK”). The IKI Fund is a Fund established between the EIB and the BMWK to catalyze investments dedicated towards mitigating greenhouse gas emissions and adapting to the effects of climate change in developing countries and emerging economies.

[PLACEHOLDER to include thanks to stakeholders engaged throughout the piloting phase].

Disclaimer: The authors take full responsibility for the content of this report. The opinions expressed do not necessarily reflect the view of the BMWK and of the EIB.

List of Acronyms and Abbreviations

European Investment Bank	EIB
Carbon capture and storage	CCS
Carbon capture and utilisation	CCU
Do No Significant Harm	DNSH
Global Reporting Initiative	GRI
Greening Financial Systems Technical Assistance Programme	GFS TA
German Federal Ministry of Economic Affairs and Climate Action	BMWK
Green Finance Taxonomy	GFT
Gross Domestic Product	GDP
Foreign Direct Investment	FDI
International Climate Initiative	IKI
International Capital Market Association	ICMA
International Labour Organization	ILO
International Union for Conservation of Nature	IUCN
Key Performance Indicator	KPI
Minimum Social Safeguards	MSS
Multinational Enterprises	MNEs

Nationally Determined Contribution	NDC
Operational Expenditure	OPEX
Organisation for Economic Co-operation and Development	OECD
Solar Photovoltaics	Solar PV
Sustainability Accounting Standards Board	SASB
Sustainable Development Goal	SDG
Technical Screening Criteria	TSC
United Nations	UN
United Nations Environment Programme	UNEP
United Nations Environment Programme Finance Initiative	UNEP FI
World Business Council for Sustainable Development	WBCSD
World Economic Forum	WEF

Glossary of Terms

Adaptation	Refers to adjustments in ecological, social, or economic systems in response to actual or expected climatic stimuli and their effects or impacts
Afforestation	The establishment of forest through planting and/or deliberate seeding on land that, until then, was under a different land use, implies a transformation of land use from non-forest to forest
Carbon Sequestration	The long-term removal, capture, or sequestration of carbon dioxide from the atmosphere to slow or reverse atmospheric CO ₂ pollution and to mitigate or reverse climate change
Carbon Sink	A forest, ocean, or other natural environment viewed in terms of its ability to absorb carbon dioxide from the atmosphere
Climate Change	Refers to a change in the state of the climate that can be identified (e.g. by using statistical tests) by changes in the mean and/or the variability of its properties and that persists for an extended period, typically decades or longer. Climate change may be due to natural internal processes or external forcings, such as modulations of the solar cycles, volcanic eruptions and persistent anthropogenic changes in the composition of the atmosphere or in land use
Deforestation	The removal of a forest or stand of trees from land that is then converted to non-forest use
Economic Activity	A process that, based on inputs, leads to the manufacture of a good or the provision of a service

Equity	The ownership of assets that may have debts or other liabilities attached to them
Green Finance Taxonomy	An official classification or catalogue that defines a minimum set of assets, projects, and sectors that are eligible to be defined as "green" in line with international best practice and national priorities
Greenhouse Gases	Gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and re-emit infrared radiation, and includes carbon dioxide (CO ₂), methane (CH ₄), nitrous oxide (N ₂ O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF ₆)
Mitigation	Avoiding and reducing emissions of heat-trapping greenhouse gases into the atmosphere to prevent the planet from warming to more extreme temperatures
Paris Agreement	The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016
Regenerative Agriculture	A conservation and rehabilitation approach to food and farming systems
Threshold	The magnitude or intensity that must be exceeded for a certain reaction, phenomenon, result, or condition to occur or be manifested
Turnover	Net turnover means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover

Executive Summary

Kenya is among the most vulnerable countries in the world to the impact of climate change³. The climate-sensitive nature of many of Kenya's most important sectors, including agriculture, water, energy, and tourism, mean the economic costs of climate change are significant: Kenya could lose up to 7.25% of economic output by 2050 if it does not take strong action to adapt to climate change and mitigate its effects⁴.

Unlocking sustainable finance and stimulating the allocation of capital to support a climate-resilient economy will be critical. An increasingly widely used tool around the world to support such an aim is the green finance taxonomy.

A green finance taxonomy (hereafter, taxonomy) is a classification system or catalogue that defines a minimum set of activities that are eligible to be defined as "green" in line with international best practice and national priorities. It can be used by investors, issuers, and other financial sector participants to track, monitor, and demonstrate the credentials of their green activities transparently and efficiently.

A taxonomy is intended to have a range of benefits. It can:

- Help the financial sector with clarity and certainty in selecting green investments in line with international best practice and Kenya's national policies and priorities.
- Reduce financial sector risks through enhanced management of environmental performance.
- Reduce the costs associated with labelling and issuing green financial instruments.
- Unlock significant investment opportunities for Kenya in a broad range of green and climate-friendly assets.
- Support regulatory and supervision oversight of the financial sector.
- Provide a basis for regulators to align or reference green financial products.

This first edition of the Kenyan Green Finance Taxonomy (KGFT) has been developed with the aim of realising the above benefits for the Kenyan financial sector in pursuit of the national sustainable ambitions. The technical assistance operation is financed under the International Climate Initiative Fund (the "IKI Fund"), established with funding from the German Federal Ministry of Economic Affairs and Climate Action ("BMWK"). The IKI Fund is a Fund established between the EIB and the BMWK to catalyse investments dedicated towards mitigating greenhouse gas emissions and adapting to the effects of climate change in the developing countries and emerging economies.

Akin to other best practice national taxonomies, the KGFT contains structural elements such as environmental objectives, sectors and economic activities with well-defined Technical Screening Criteria (TSC):

³ World Bank (2021) Climate Risk Country Profile: Kenya, World Bank Group, Washington DC. Available: [15724-WB_Kenya Country Profile-WEB.pdf \(worldbank.org\)](#)

⁴ World Bank (2023) Kenya - Country Climate and Development Report. Washington DC. Available [Open Knowledge Repository \(worldbank.org\)](#)

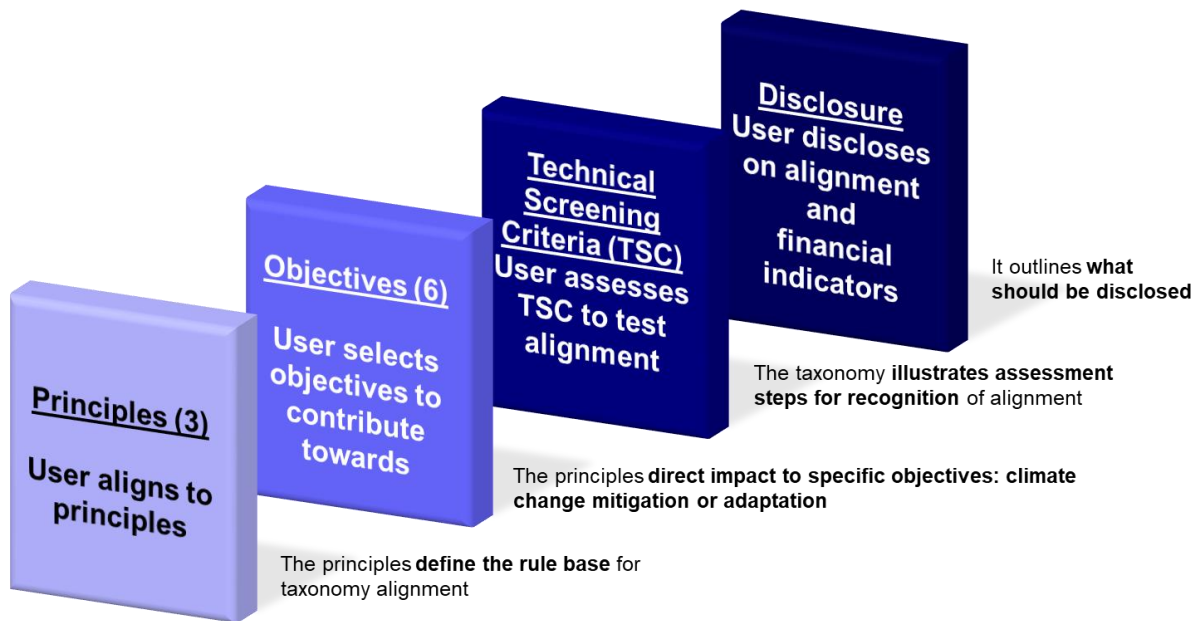


Figure 1: Structure of the KGFT as per international best practice.

While this framework mirrors international best practice to enhance interoperability with international taxonomic structures, it is importantly underpinned by Kenya's own specific strategic environmental and development objectives and policies.

There are several complex policy and regulatory inputs pending, but the capacity to overcome challenges and intention to support an equitable, resilient low-carbon green economy continues to grow. In this context, the national dialogue central to the development of the KGFT first edition, has contributed to the advancement of awareness of the Kenyan financial sector's role in national and international climate action.

Document Purpose and Navigation

This document sets out the results of the work to date in developing the first edition of the Kenyan Green Finance Taxonomy (KGFT) for environmentally sustainable economic activities.

The document is comprised of the following parts:

Section	Description
Part A - About the Kenyan Green Finance Taxonomy	Sets out the role of the KGFT and provides additional materials to consult describing additional context to the development and purpose of the taxonomy.
Part B – User Guidance	Provides guidance on navigating the document and determining taxonomy alignment and taxonomy-aligned finance.
Part C – Catalogue of Sectors and Activities	Illustrates the sectors and activities that are recognised by the KGFT.
Part D – Technical screening criteria	Provides the technical screening criteria (TSC) that set the performance requirements for each economic activity.
Part E – Appendices: Sectoral Technical Screening Criteria	Appendix 1: Manufacturing Appendix 2: Agriculture, forestry and fishing Appendix 3: Mining and quarrying Appendix 4: Electricity, gas, steam and air conditioning Appendix 5: Water supply, sewerage, waste management and remediation Appendix 6: Transportation and storage Appendix 7: Real estate Appendix 8; Construction Appendix 9: Information and Communication Appendix 10: Financial and insurance activities

PART A - ABOUT THE KENYAN GREEN FINANCE TAXONOMY

The project to develop the first edition of the Kenyan Green Finance Taxonomy (KGFT) is part of the European Investment Bank (EIB) Green Gateway - Greening Financial Systems Technical Assistance Programme (GFS TA Programme). The TA operation is financed under the International Climate Initiative Fund (the “IKI Fund”), established with funding from the German Federal Ministry of Economic Affairs and Climate Action (“BMWK”). The IKI Fund is a Fund established between the EIB and the BMWK to catalyse investments dedicated towards mitigating greenhouse gas emissions and adapting to the effects of climate change in the developing countries and emerging economies.

The GFS TA Programme is structured to provide technical assistance support to central banks and financial intermediaries, with support being adapted to specific needs and objectives based on their commitment to the green agenda, but broadly to manage climate risk, unlock investment and build internal capacity.

Kenya is part of the International Platform on Sustainable Finance through the National Treasury, where the Common Ground Taxonomy was developed to facilitate comparability and interoperability of taxonomies and sustainability-related disclosure. This knowledge base strengthened the identification, verification and alignment of investments with sustainability goals, taking due account of local specificities.

In this context, KGFT have built upon the green EU Taxonomy for Sustainable Activities (EU Taxonomy) as a reference framework, specifically in assessing the substantial contribution criteria for climate change mitigation and adaptation, and alignment with the National Policy on Climate Finance with regards to climate investment. In addition, IDFC Common Principles for Climate Mitigation Finance Tracking was analysed to further assure comparability and interoperability in reporting.

Under the GFS TA in Kenya, DAI and the Carbon Trust supported the Central Bank of Kenya (CBK) in defining and developing a first edition of the KGFT, including goals, users and priority sectors, from the perspective of the banking sector. The delivery partners have supported the CBK to define a roadmap for the KGFT launch and implementation, in stakeholder consultations and public discussions, and in the development of guidelines and capacity building to facilitate wide uptake and use of the KGFT.

1. Introduction

1.1. The climate crisis and the Kenyan context

Climate change is no longer a fringe concern; it has become a serious and imminent global disaster. The effects of climate change are already visible: increased severity of natural disasters, species extinction, rising sea levels, and human fatalities have been reported around the world, and Kenya is no exception. In fact, climate risks continue to pose significant threats to economic development, sustainability and environmental objectives, and to the health and wellbeing of the population.

This has compelled Kenya to take action and become a leader in addressing climate change: it was one of the first countries in Africa to enact a comprehensive law and policy to guide national and subnational climate action⁵, the Climate Change (Amendment) Bill, 2023. Kenya contributes less than 0.1 percent of global greenhouse gas (GHG) emissions annually but submitted an updated, more ambitious Nationally Determined Contribution (NDC) on December 24, 2020, with a commitment to reduce emissions by 32 percent by 2030 relative to the business-as-usual scenario in line with its sustainable development agenda and in honour of the Paris Agreement.⁶ The Kenya Vision 2030 provides an overarching long-term national development blueprint which requires a focus on low-carbon sustainable development and the country's adaptive capacity⁷. To put this document into action and meet NDC targets, Kenya has launched implementation plans in the form of the Long-Term Low Emission Development Strategy 2022-2050, and the aligned National Climate Change Action Plan 2023-2027 (the third iteration of the five-year action plan).

The achievement of Kenya's sustainable development ambitions and NDC commitments requires substantive strategic efforts in climate mitigation and adaptation enabled by a well-planned transition process to a green economy as well as adequate financing from both public and private sectors. Kenya's National Policy on Climate Finance establishes the legal, institutional and reporting frameworks to access and manage climate finance and highlights the key steps the financial sector could take to overcome potential challenges⁸. It is one of the financial sector's strategic priorities to attract climate finance and promote climate investment, as well as establish a robust framework to maximise climate finance mobilisation. The KGFT can be used as a tool to meet these aims.

The Central Bank of Kenya (CBK), as the monetary authority of Kenya, is well-placed to support the sustainable and green economy agenda and catalyse sustainable and transition financing needs for Kenya and other East African countries. The CBK has worked to contribute to the sustainable development agenda in providing the banking sector with Guidance on Climate-Related Risk Management to reduce the market friction in understanding and disclosing climate-related risks and opportunities⁹. The KGFT project was developed as an extension to the CBK's contribution to national climate action. It is a

⁵ USAID, 2023. Kenya Climate Change Country Profile. [online] Available at <https://www.usaid.gov/climate/country-profiles/kenya> [Accessed January 2024]

⁶ United Nations Framework Convention on Climate Change, 2020. Kenya's Updated Nationally Determined Contribution (NDC). Available at <https://unfccc.int/sites/default/files/NDC/2022-06/Kenya%27s%20First%20%20NDC%20%28updated%20version%29.pdf> [Accessed January 2024]

⁷ Kenya Vision 2030. Available at [Kenya Vision 2030 | Kenya Vision 2030](#)

⁸ Republic of Kenya: The National Treasury, 2016. National Policy on Climate Finance. Available at [THE GOVERNMENT OF KENYA \(fao.org\)](#)

⁹ Central Bank of Kenya, 2021. Guidance on Climate-Related Risk Management. Available at [Guidance-on-Climate-Related-Risk-Management.pdf \(centralbank.go.ke\)](#)

sustainable finance initiative under the CBK with the aim of unlocking access to sustainable finance and stimulating the allocation of capital to support a development-focused and climate-resilient economy.

1.2. Objective of the Kenyan Green Finance Taxonomy

A green taxonomy is a classification system that highlights which investment options are environmentally sustainable and, by extension, those that aren't. It defines a minimum set of assets, projects, activities, and sectors that are eligible to be defined as "green" in line with international best practice and national priorities. It can be used by investors, issuers, and other financial sector participants to track, monitor, and demonstrate the credentials of their green activities in a more confident and efficient way.

This first edition of the KGFT has been developed for the banking sector as an initial entry point into the financial sector. Based on stakeholder consultation and inputs from the Taxonomy Working Group (TWG), the KGFT is subject to increase its scope to the financial sector more broadly in subsequent editions.

The KGFT is intended to have a range of benefits to the Kenyan banking sector. It will serve as a reference for the sustainable progress of the Kenyan economy without social or environmental trade-offs. The aim being to increase the consistency of green finance flows and align green products and financial allocations with internationally recognised standards. Users can be confident that taxonomically-aligned economic activities meet a high threshold of commitment to climate change and the Kenyan trajectory towards a sustainable economy. Alignment to international best practice taxonomies such as that of the EU encourages green financial investment and lending both locally and from foreign financial institutions. As a tool for the effective communication between the CBK and Kenyan commercial banks, the taxonomy establishes a shared language and supports transparent performance tracking and reporting.

1.3. Governance

The TWG comprising the CBK, EIB, Carbon Trust, and DAI, was established in December 2023 to support the development of the KGFT.

The TWG is mandated to uphold the governance mechanism for the advancement and refinement of the taxonomy. The KGFT first edition provides a framework for environmental objectives and TSC which requires advancement over time. The TWG is to ensure that there is a formal governance structure in place to allow for fulfillment and refinement. The TWG is also tasked with ensuring that the KGFT remains relevant. As changes occur in legislation or technology, refinements of the KGFT will ensure that it adapts accordingly.

The Technical Working group (TWG) is responsible for coordinating stakeholder engagement in the development of the KGFT, as well as commentary received once published. Inputs are to be considered, responded to, and integrated into subsequent editions of the KGFT if applicable.

1.4. Interoperability with international taxonomies

Interoperability in this case is defined by the extent to which taxonomies are comparable with others, including the way that principles, objectives, classifications and TSC are equivalent to one another. It is of strategic importance that taxonomies are interoperable with one another to serve the purpose of reducing friction in international capital flows.

The advantages of a taxonomy that is transparent and interoperable is that it lowers the risk of market fragmentation, information asymmetry which can lead to higher transaction costs of verification and assessment of activities. This is important for emerging markets looking to further integrate into international financial markets. This needs to be balanced with a contextually specific and locally led approach to taxonomy development.

The KGFT has been contextualised to account for national goals and commitments of Kenya but is comparable and interoperable with other taxonomies. The KGFT mirrors the principles and objectives of the European Union, leveraging the work done on the South African Green Finance Taxonomy (SA GFT).

PART B – USER GUIDANCE

2. Application and navigation guidance

2.1. Users and uses of the Taxonomy

A green taxonomy will help the banking sector to identify "green" assets in their jurisdictions and make informed decisions on environmentally friendly investments that can promote sustainable economic development and environmental goals. While intended for the banking sector, the KGFT has diverse potential users as a network of impacted/impacting stakeholders, including policy makers and government agencies, companies and project developers, multilateral development institutions, practitioners, and civil society organisations.

The KGFT will provide a common language and criteria that will support coordination and cohesion among the banking sector and its beneficiaries to identify investment opportunities that are environmentally sustainable. This is done through managing environmental risks and knowing the activities that will enable Kenya to acquire an equitable, resilient, low-carbon green economy. Table 1 lists the intended primary users and applications of the KGFT, while Table 2 lists the potential secondary users.

Table 1: Intended users and applications of the KGFT.

User Group	Example User	Intended primary users of the KGFT ¹⁰
Banking sector actors	Includes banking sector participants: commercial banks, national development banks, and banking sector associations	<ul style="list-style-type: none">• Compile exposure disclosures in line with regulatory requirements and align supervisory and regulatory measures to facilitate systemic monitoring.• Identify investment opportunities in the financial and wider economy based on the KGFT.• Improve data systems and disclosure for taxonomic evaluations and enhance diligence in identifying impact and contribution alignment.• Support engagements with investors and investees.• Assess new investments for taxonomy alignment.
Companies and project developers	Includes companies and industry associations as potential corporate bond issuers and project developers. e.g.	<ul style="list-style-type: none">• Encourage investor and capital market involvement to obtain financing based on KGFT and theme alignment.

¹⁰ World Bank Group, 2020. Developing a national green taxonomy: A World Bank Guide.

User Group	Example User	Intended primary users of the KGFT ¹⁰
	manufacturers and mining companies	<ul style="list-style-type: none"> Disclose the taxonomy alignment of capital investment, operating expenses, and turnover.

Table 2: Potential users additional to the key user group and/or users to subsequent KGFT editions

User Group	Example User	Typical users of green finance taxonomies ¹¹
Finance market practitioners outside the banking sector	Financial sector actors across the industry, including asset managers, pension funds, insurance agencies.	<ul style="list-style-type: none"> Compile exposure disclosures in line with regulatory requirements and align supervisory and regulatory measures to facilitate systemic monitoring. Identify investment opportunities in the financial and wider economy based on the KGFT. Improve data systems and disclosure for taxonomic evaluations and enhance diligence in identifying impact and contribution alignment. Support engagements with investors and investees. Assess new investments for taxonomy alignment.
Policy makers and government agencies	Includes law makers and government departments	<ul style="list-style-type: none"> Support the development of policies, laws, and regulations. Support pipeline development that aligns with taxonomies and identifies areas of underinvestment in relative to the objectives. <ul style="list-style-type: none"> Accurately measure and account for financial flows at various economic levels, while also enhancing and aligning tracking systems. Support the defining of public metrics and standards of labels

¹¹ World Bank Group, 2020. Developing a national green taxonomy: A World Bank Guide.

User Group	Example User	Typical users of green finance taxonomies ¹¹
		<p>for green financial instruments or green bonds.</p> <ul style="list-style-type: none"> • Support reporting on the achievement of NDC's, sustainable development goals and sustainable social economic development.
Multilateral development institutions	Includes regional or international institutions operating in Kenya. e.g. UN organisations and World Bank	<ul style="list-style-type: none"> • Assess alignment of the taxonomy with international funds and mechanisms to ensure the use supports access to international climate finance. • Disclosure of information related to standard definitions issued by the Government on green economic activities.
Practitioners	Includes environment and climate action practitioners such as environmental consultancies	<ul style="list-style-type: none"> • Identify and classify economic activities that are aligned to the taxonomy. • Provide guidance on making pipeline or ongoing activities aligned and carryout verifications for taxonomy alignment.
Civil society	Includes non-governmental organizations and institutions with an interest in the financial sector and climate change goals	<ul style="list-style-type: none"> • Identify and support taxonomy aligned investments. • Report activity alignment to civil society funders.

3. Determining Taxonomy Alignment

3.1. Process overview for evaluating an activity, asset or project as green

There is a seven-step process for determining taxonomy-alignment as set out in the figure below. The steps offer guidance that will help users determine taxonomy-alignment of the economic activity under consideration. The result is binary – either ‘taxonomy-aligned’ or “not”.

Once alignment is assessed based on the details of the TSC, taxonomy-aligned financial flows (i.e. a breakdown of revenue, turnover or OpEx) can be calculated. This may require some interpretation and assumptions to be made by the taxonomy user, which should be disclosed.

Table 3: Steps in determining taxonomy-alignment using the KGFT document

Step 1	Familiarisation with the principles	In order to demonstrate that an economic activity aligns with the taxonomy, an economic activity must be assessed against, and meet all principles.
Step 2	Identification of environmental objective(s) that the economic activity under consideration intends to contribute towards	The taxonomy currently recognises substantial contribution to either climate change mitigation or climate change adaptation. (Future work is required to develop detailed requirements for other environmental objectives.)
Step 3	Assess if economic activity is included in the taxonomy	Refer to Part C
Step 4	Evaluate the economic activity’s performance against technical screening criteria related to the environmental objective that the economic activity under consideration intends to contribute towards	Refer to Part D
Step 5	Evaluate the economic activity’s performance against the Do No Significant Harm (DNSH) criteria	Refer to Part D
Step 6	Evaluates the economic activity’s performance against the Minimum Social Safeguards (MSS)	Refer to Part D

Step 7	Disclose results	Taxonomy-alignment is reported as a financial metric. See Section 4 for guidance.
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The section below provides further detail on the methodology for determining the alignment of an economic activity/asset with the KGFT.

3.1.1. Step 1: Familiarisation with the principles of the taxonomy

In order to demonstrate an economic activity's alignment with the taxonomy, all three of the following principles must be met:



1. Principle 1: Contributes substantially ('Makes Significant Contribution', MSC) towards at least one environmental objective (being possible at this time to be assessed only in terms of Climate Change Mitigation and/or Climate Change Adaptation).



2. Principle 2: Does no significant harm to any of the other taxonomy objectives (DNSH).



3. Principle 3: Meets minimum social safeguards (MSS).

With respect to the first principle, the first edition of the KGFT allows for the classification of important economic activities into two categories of environmental objectives; namely those activities that make significant contributions to:

- Climate change mitigation
- Climate change adaptation

Other environmental objectives may also be included in future editions of the of the KGFT, including:

- Sustainable use of water and marine resources
- Pollution prevention
- Sustainable resource use and circularity
- Ecosystem protection and restoration

It is possible for an economic activity to make substantial contribution to more than one environmental objective; users are encouraged to identify all the pertinent objectives to which a contribution is made. Should substantial contribution be to an environmental objective for which technical criteria are not yet defined in the KGFT technical standards, this 'co-contribution' might be stated by the user, but it will not be possible to declare taxonomy-alignment on this yet.

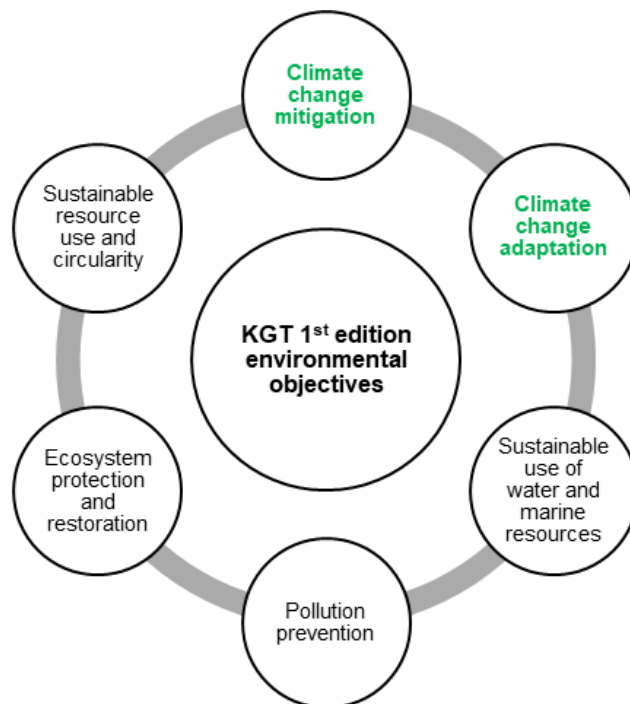
3.1.2. Step 2: Identification of environmental objective(s) that the economic activity under consideration intends to contribute towards

a) Identify to which objective the economic activity under consideration substantially contributes.

To determine if an economic activity is eligible, KGFT users must evaluate whether it contributes significantly to at least one of the KGFT's six objectives.

To assess if an economic activity is eligible, KGFT users must assess whether it contributes significantly to at least one of the KGFT's six objectives as seen in Figure 2. The first edition of KGFT only includes a TSC for economic activities that contribute significantly to climate change mitigation and adaptation.

Figure 2: Taxonomy environmental objectives



Currently, the Taxonomy provides the TSC specific to economic activities that make substantial contribution to climate change mitigation and climate change adaptation. TSC related to the other taxonomy objectives have not yet been developed, therefore, substantial contribution to these objectives cannot be assessed using the current edition of the KGFT.¹²

The KGFT recognises two distinct categories of considerable contributions that apply to both climate change mitigation and adaptation. These different types of Substantial Contributions are reflected in the TSC as:

1. Economic activities that make a substantial contribution based on their own performance.
2. Enabling activities: economic activities that, by provision of their products or services, enable a substantial contribution to be made through other activities.

b) Defining substantial contribution to environment objective 1: climate change mitigation

¹² The technical definition for doing harm (or conversely not doing harm) is contained in each relevant technical standard (the Technical Screening Criteria (TSC)) and the user must evaluate against these TSC to decide, against each environmental objective defined.

An economic activity is considered to contribute substantially to the environmental objective of climate change mitigation where that activity substantially contributes to the stabilisation of greenhouse gas concentrations in the atmosphere at a level that prevents dangerous anthropogenic interference with the climate system. It does this by avoiding or reducing greenhouse gas emissions or enhancing greenhouse gas removals through any of the following means, including through process or product innovation, consistent with the long term temperature goal of the Paris Agreement¹³:

- i. Generating, transmitting, storing, distributing or using renewable energy, including through using innovative technology with a potential for significant future savings or through necessary reinforcement or extension of the grid;
- ii. Improving energy efficiency except for power generation activities;
- iii. Increasing clean or climate-neutral mobility;
- iv. Switching to the use of sustainably sourced renewable materials;
- v. Increasing the use of environmentally safe carbon capture and utilisation (CCU) and carbon capture and storage (CCS) technologies that deliver a net reduction in greenhouse gas emissions;
- vi. Strengthening land carbon sinks, including through avoided deforestation and forest degradation, restoration of forests, sustainable management and restoration of croplands, grasslands and wetlands, afforestation, and regenerative agriculture;
- vii. Establishing energy infrastructure required for enabling the decarbonisation of energy systems;
- viii. Producing clean and efficient fuels from renewable or carbon-neutral sources; and
- ix. Enabling any of the above.

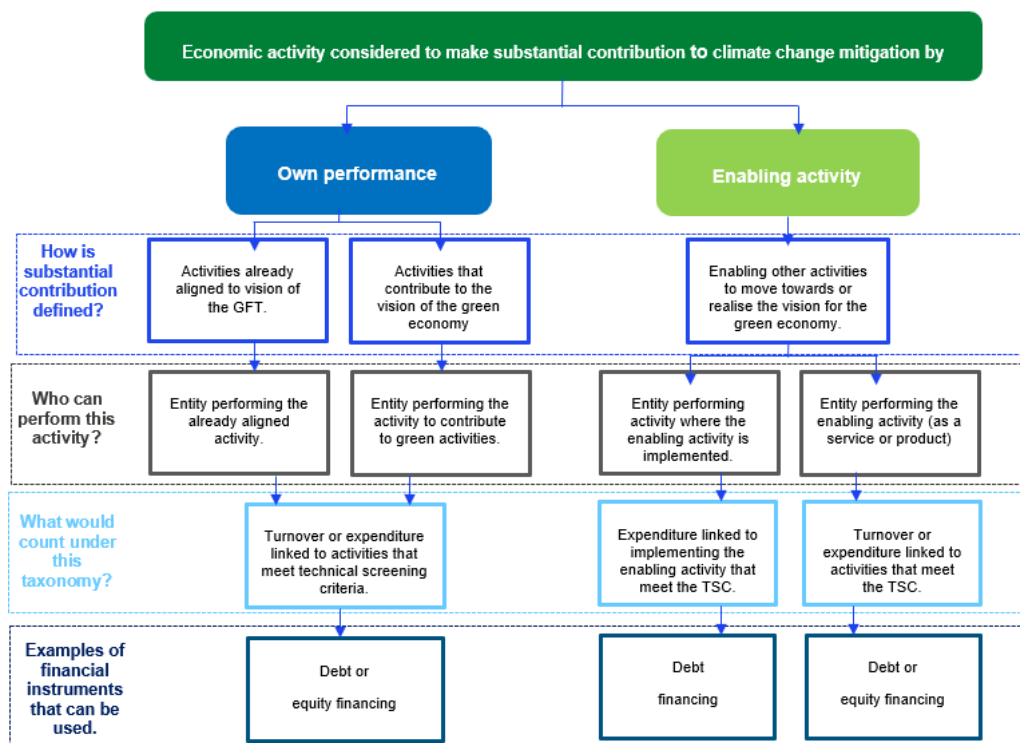
An economic activity for which there is no technologically and economically feasible low carbon alternative, is considered to contribute substantially to climate change mitigation when it supports the transition to a low carbon economy. This is by phasing out greenhouse gas emissions, in particular from solid fossil fuels, where that activity:

- i. Has greenhouse gas emission levels that correspond to the best performance in the sector or industry;
- ii. Does not hamper the development and deployment of low-carbon alternatives; and
- iii. Does not lead to a lock-in in carbon-intensive assets considering the economic lifetime of those assets.

Figure 2 below illustrates how substantial contribution of an economic activity to climate change mitigation should be assessed based on own performance or as an enabling activity. The illustration covers, among other things, guidance on how substantial contribution should be defined and what counts under the first edition of the KGFT.

¹³ Namely as set out in Article 2, of "holding the increase in the global average temperature to well below 2°C and pursuing efforts to limit it to 1.5°C above preindustrial levels".

Figure 3: Activities making substantial contribution climate change mitigation



c) Defining substantial contribution to environmental objective 2: climate change adaptation

The starting point for the adaptation is the same as that for climate change mitigation. However, this does not indicate that these activities are more important than any other for climate change adaptation objectives. Below detail establishes a framework for understanding substantial contributions to climate change adaptation objectives. This definition is broadly consistent with that provided by the Intergovernmental Panel on Climate Change¹⁴. An economic activity is considered to contribute substantially to climate change adaptation where:

- That economic activity includes adaptation solutions that either substantially reduce the risk of adverse impact or substantially reduces the adverse impact of the current and expected future climate on that economic activity itself without increasing the risk of an adverse impact on other people, nature and assets; or where
- That economic activity provides adaptation solutions that contribute substantially to preventing or reducing the risk of adverse impact or substantially reduces the adverse impact of the current and expected future climate on other people, nature or assets, without increasing the risk of an adverse impact on other people, nature and assets.

¹⁴ The IPCC provides the following definition of adaptation in their 6th Assessment Report: "Adaptation is defined, in human systems, as the process of adjustment to actual or expected climate and its effects in order to moderate harm or take advantage of beneficial opportunities. In natural systems, adaptation is the process of adjustment to actual climate and its effects; human intervention may facilitate this". IPCC (2022), 'Climate Change 2022: Impacts, Adaptation, and Vulnerability. Working Group II Contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. Available: [IPCC_AR6_WGII_FullReport.pdf](https://www.ipcc.ch/report/ar6/wgii/full-report/)

The adaptation solutions referred to in point (a) above must be assessed and prioritised using the best available climate projections and must, as a minimum, prevent or reduce:

- i. The location-specific and context-specific adverse impact of climate change on the economic activity; or
- ii. The adverse impact that climate change may have on the environment within which the economic activity takes place.

The adverse impact of climate change considered for the development of the taxonomy include impact resulting from both chronic or slow onset climate-related hazards (such as average temperature increase and sea level rise) and rapid or acute climate related hazards (such as extreme rainfall, storm surges, flooding, and heat waves).

Material physical climate risk is the risk of (financial and non-financial) losses occurring due to performance failures, performance delays or incomplete performance of an economic activity resulting from climate-related hazards. With that in mind, climate change adaptation comprises two types of substantial contribution to adaptation objectives:

1. **Adapted activities:** an economic activity is adapted where it reduces all material physical climate risks identified for the economic activity to the extent possible and on a best effort basis in alignment with Figure 2; and/or
2. **Activities enabling adaptation of an economic activity:** the activity reduces all material physical climate risk in other economic activities and/or addresses systemic barriers to adaptation in alignment with Figure 2, and is itself also adapted to physical climate risks.

Both types of activities must also meet the criteria for DNSH to other environmental objectives and comply with Minimum Social Safeguards (MSS) established for the KGFT. Activities adapted to climate change and activities enabling adaptation of other economic activities provide a positive environmental impact by meeting a set of technical criteria for substantial contribution to adaptation and a set of criteria for doing no harm to other environmental objectives, whilst avoiding adverse impacts to people, assets and nature and preventing a lock-in of activities that undermine long-term environmental goals.

Figure 2 below illustrates how substantial contribution of economic activities to climate change adaptation should be assessed as either adapted activities or activities enabling adaptation.

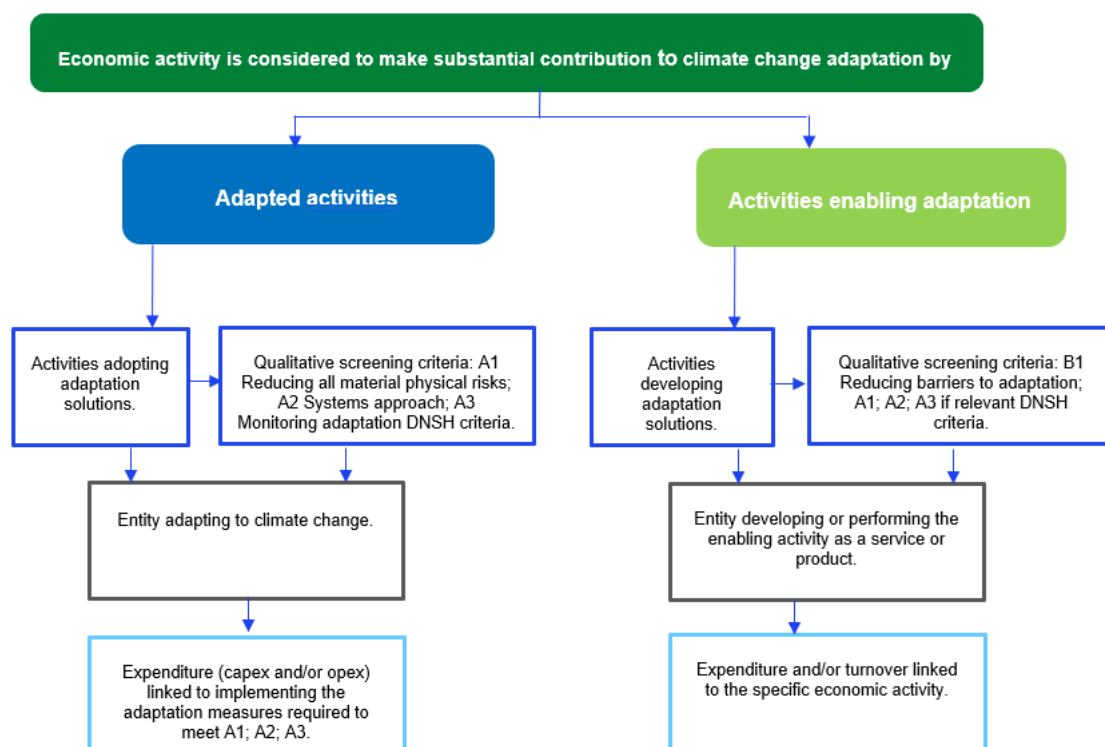


Figure 2: Activities making substantial contribution climate change adaptation.

d) Guidance for substantial contributions to climate change adaptation

The following guidance is proposed to identify an economic activity that substantially contributes to climate change adaptation:

- **The economic activity reduces all material physical climate risk exposure.** In the case of an adapted economic activity, the activity integrates measures aimed at reducing all material physical climate risk exposure to that activity as identified through a vulnerability assessment of material risks posed by both current weather variability and expected future climate change. The assessment should take into account chronic and acute climate-related hazards and associated physical climate risks across a range of scenarios, and account for uncertainty. It should consider geographic and temporal scales that are deemed appropriate for the economic activity.
- **In the case of an economic activity enabling adaptation,** the activity reduces material risks to other economic activities and/or addresses systemic barriers to adaptation, for example through a dedicated asset, technology, service or product, and itself integrates measures aimed at reducing material risks where applicable (e.g. in the case of a dedicated asset).
- Furthermore: **The economic activity does not adversely affect adaptation efforts by others.** Economic activities and the measures taken to address the material climate risks facing those activities should be consistent with adaptation needs in the applicable sector or region, considering opportunities to build resilience outside of the premises of a single activity. Those measures should also not increase the risk of an adverse impact on other people, nature and

assets in terms of hindering adaptation efforts by others for example by shifting impacts faced by others

- **The economic activity has adaptation-related outcomes that can be defined and measured using adequate indicators.** When possible, the outcomes of adaptation activities should be monitored and measured against defined indicators for adaptation results. If possible, updated assessments of physical climate risks should be undertaken at the appropriate frequency (e.g. every five or ten years) depending on the risks, the context and the availability of new information, technologies or approaches or policies and regulations.

3.1.3. Step 3: Assess if economic activity is included in the taxonomy

a) Identify whether the economic activity under consideration is covered by the current edition of the KGFT

The KGFT catalogue of sectors and activities (Part C) identifies economic macro-sectors and the associated economic activities within those macro-sectors that are needed as part of the future Kenyan green economy. Using the KGFT catalogue, users will be able to find the macro-sector that the economic activity under consideration would best relate to and then navigate to the economic activity which best matches that specific economic activity.

Another possible way to do this is to identify the Kenya Standard Industrial Classification (KeSIC) code¹⁵ related to the economic activity under consideration and match it to the KeSIC code of the economic activity within the catalogue. (KeSIC codes can cover broad activity and as a result match, a number of activities and, therefore, specific economic activity reference must be referred to when aligning specific economic activities to taxonomy activities).

After a match has been made, use the referenced section number provided in the catalogue to direct you to where the TSC related to that specific economic activity under consideration can be found.

If there is no economic activity that relates to the economic activity under consideration, this means that the economic activity does not yet exist in the current edition of the KGFT or has been disqualified for its traits being inconsistent with development fundamentals. In either case, taxonomy-alignment assessment is not possible. In the case that the user is of the view that the activity is consistent with development fundamentals, it is recommended that an application is made to the designated agency (to be determined) for consideration and further development of the green finance taxonomy to provide extended coverage for the economic activity under consideration.

3.1.4. Step 4: Meet applicable Technical Screening Criteria (TSC)

After a match has been made as per Step 3, refer to the make significant contribution criteria section of the table in alignment to the objective the economic activity intends to substantially contribute to. The current edition of the KGFT is limited to TSC for substantial contribution to climate change mitigation and climate change adaptation.

For each of the activities selected, TSC have been developed that include:

¹⁵ KENYA STANDARD INDUSTRIAL CLASSIFICATION (KeSIC) of All Economic Activities First Edition, 2021 (Kenya National Bureau of Statistics)

- i. Principles: The underlying rationale for how the activity will result in a substantial contribution and/or avoidance of significant harm to the environmental objective in question.
- ii. Metrics and Thresholds: including both metrics and thresholds: The method(s) by which the environmental performance of the economic activity will be measured, including defining the boundary for this measurement and the qualitative or quantitative conditions which must be met to enable the performance of the activity in a way that is considered environmentally sustainable.

The principles, metrics and thresholds can be found under the make significant contribution criteria of each economic activity.

Using the information under this section, assess alignment to metrics and thresholds to determine whether the economic activity under consideration makes substantial contribution to the indented objective.

Testing alignment to the TSC requires quality and granular data. A combination of third-party data providers together with in-house research can ease the process. Examples include MSCI, ISS, Sustainalytics, FactSet, Trucost S&P, Carbon Delta, GS Sustain Taxonomy mapping tool and RepRisk¹⁶¹⁷¹⁸¹⁹²⁰²¹.

If the economic activity under consideration meets the metrics and thresholds, this alignment should be reported transparently. If the economic activity under consideration does not meet the metrics and thresholds, the economic activity is not aligned to the KGFT.

a) Screening criteria for activities making a substantial contribution to climate change adaptation

The TSC are specific characteristics that can be used to determine whether an economic activity provides a substantial contribution to adaptation. These TSC vary between 'adapted' activities and activities that enable adaptation.

b) Classification of climate-related hazards

The climate-related hazards considered are limited to the potential occurrence of a weather and climate-related natural physical event or trend.²² The climate-related hazard classification comprises four major hazard groups, with hazards related to water, temperature, wind, and mass-movements. All groups include acute (extreme) and chronic (slow-onset) hazards, as adaptation must account for both rapid as

¹⁶ MSCI ESG Ratings. Available at [ESG Investing: ESG Ratings - MSCI](#)

¹⁷ ISS Governance ESG Ratings and Rankings. Available at [ESG Ratings | ISS \(issgovernance.com\)](#)

¹⁸ Refinitiv ESG Data. Available at [ESG data | Refinitiv](#)

¹⁹ Factset ESG Investing Solutions. Available at [ESG Investing Solutions | FactSet](#)

²⁰ S&P Global Trucost. Available at [S&P Global Trucost | S&P Global \(spglobal.com\)](#)

²¹ RepRisk. Available at [RepRisk | Approach](#)

²² IPCC, 2014, Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland, 151 pp (https://www.ipcc.ch/site/assets/uploads/2018/02/SYR_AR5_FINAL_full.pdf, last visit 02/04/2019).

well as gradual changes in the weather and climate to take the appropriate adaptation measures and avoid maladaptation.²³

This analysis focusses on the most important or significant hazards and is designed to guide the user to consider the most salient physical risks when mapping the sensitivities of a given sector. All secondary hazards²⁴ resulting from climate-related hazards (including but not limited to chemical, biological, ecological and epidemiological hazards) are excluded. It is however advisable to assess the risk of such secondary hazards and consider measures to address them for each economic activity.

3.1.5. Step 5: Do no significant harm to any of the other objectives (Principle 2)

Evaluate performance against Do No Significant Harm Criteria of the other taxonomy objectives

Within the TSC table of each economic activity, guidance regarding potential significant harm associated with economic activity is provided together with the criteria related to each objective.

Users need to assess performance against each of the 5 objective's Do No Significant Harm (DNSH) Criteria (excluding the objective that the economic activity under consideration intends to substantially contribute to) to be taxonomy-aligned. Additionally, recognition of an economic activity as taxonomy-aligned (and being effective in making its significant contribution) requires the activity to demonstrate climate change resilience. To demonstrate climate change resilience, physical climate risks that are material to the activity need to be identified by performing a robust climate risk and vulnerability assessment.

The climate change vulnerability assessment process to be undertaken is illustrated in Figure 3. The assessment is required to be proportionate to the scale of the activity and its expected lifespan, such that:

- i. For investments into activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using downscaling of climate projections; and
- ii. For all other activities, the assessment is performed using high resolution, state-of-the-art climate projections across a range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30 years climate projections scenarios for major investments.

Additionally, the economic operator is required to develop a plan to implement adaptation solutions to reduce material physical climate risks to the activity. Those adaptation solutions must not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of assets and of other economic activities and are consistent with local, sectoral, regional or national adaptation efforts. For existing activities and new activities using existing physical assets, the economic operator implements physical and non-physical solutions ('adaptation solutions'), over a period of time of up to five years, that reduce identified physical climate risks that are material to that activity. For new activities and existing activities using newly-built physical assets, the economic operator integrates the adaptation

²³ There are clearly linkages with disaster risk reduction in the effort of reducing physical climate risks resulting from extreme climate-related hazards. Geophysical and technological hazards are outside the domain of adaptation to climate change

²⁴ As an example, new biological pests or increased prevalence of existing pests can result from changing temperatures. Forests and agriculture are typically sensitive to warmer (minimum) temperatures and, in this example, their effects on pests. In this case, the changing prevalence of pests is a secondary hazard against which adaptation measures may be needed.

solutions that reduce the identified physical climate risks that are material to that activity at the time of design and construction and has implemented them before the start of operations.

If the economic activity under consideration does not meet the DNSH Criteria, the economic activity is not aligned to the KGFT. If the economic activity under consideration meets the DNSH Criteria, this alignment should be transparently disclosed.

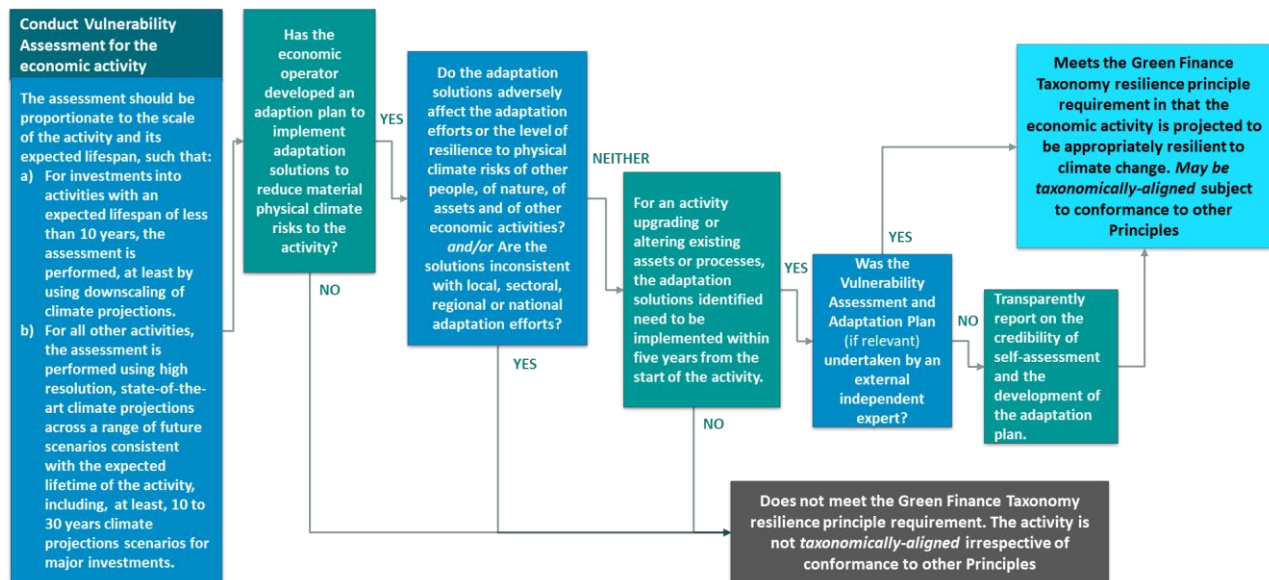


Figure 3 Climate change vulnerability assessment process

3.1.6. Step 6: Comply with Minimum Social Safeguards (Principle 3)

Companies and other issuers disclosing against the Taxonomy need to assess their compliance with MSS by ensuring implementation of policies, procedures and governance mechanisms that put into effect alignment with Kenyan labour law and the standards in:

- International Labour Organisation (ILO) core labour conventions;
- Organisation for Economic Co-operation and Development (OECD) Guidelines on Multinational Enterprises (MNEs); and
- UN Guiding Principles on Business and Human Rights

Companies and issuers with such processes in place would be able to provide data that will assist in assessing compliance with the MSS. Assessments that result in positive compliance with MSS should be transparently disclosed together with the associated supporting evidence.

There are two areas of influence that need to be considered when ensuring alignment with policies, procedures and governance mechanisms that put into effect social risk management. The first is that the workforce employed by the company or issuer will need to comply with the Kenyan labour law. This includes:

The Constitution of Kenya. Article 27 provides for the right to equality and freedom from discrimination. Article 41 stipulates that every person has a right to fair labour relations, and every worker has the right to fair remuneration, reasonable working conditions, and to join or participate in a trade union.

- The Employment Act 2007
- The Labour Institutions Act of 2007
- Occupational Safety and Health Act 2007
- The Work Injury Benefits Act 2007
- The Industrial Court Act 2011

Regarding the second area which relates to social impacts concerned with the community and wider society, the process for identification and management of social risks and impacts (those beyond labour, taxation and OHS compliance considerations) would include aspects related to robust social due diligence process. For example, company's and issuers have the responsibility to ensure engagement of service providers and development contractors that manage social risks and impacts sufficiently, and remains exposed if social controls are inadequate – even if the contractor is legally compliant. There are various other guideline materials and frameworks that provide guidance related to assessing social risk and adopting social due diligence process. Some examples of these include:

- OECD guidelines and due diligence guidance for Responsible Business Conduct (RBC);
- The Equator Principle EP4; and
- IFC performance Standards

Companies and issuers with such processes in place would be able to provide data that will assist in assessing compliance with the MSS.

Assessments that result in positive compliance with MSS should be transparently disclosed together with the associated supporting evidence.

As part of the first phase of the KGFT development process, it is established that principles and standards for substantially contributing to social objectives is needed. However, at this time, necessary underpinning tools and data are in process of development but not yet suitable for pre-emptive integration. In addition, the project has focused on establishment of the foundational focus areas, with the ambition to expand the Taxonomy for further coverage, given necessary and appropriate resourcing, time, design, development, engagement, testing and coordination. The addition of social objectives and the identification of activities that are more socially conscionable are recommended for future development and integration.

3.1.7. Step 7: Conclude on taxonomic-alignment

a) Disclose results

If the economic activity under consideration fully conforms to steps 2 – 6, taxonomic-alignment can be declared. A declaration should include the final collective result with all supporting assessment results for each assessment as well as relevant supporting details and impact indicators.

At this time, reporting templates are not provided for this purpose. Users should consider international examples relevant to their purpose or develop simple formats communicating all salient aspects of the evaluation process, key assumptions and results.

4. Determining Taxonomy-Aligned Finance

The following section aims to provide guidance as to reporting taxonomy-aligned finance based on economic activities that have met TSC as set out in the previous section.

This guidance aligns strongly to that provided by the EU Technical Expert Group (TEG) on Sustainable Finance in the TEG March 2020 report to the European Commission and the 1st Edition of the South African Green Finance Taxonomy published in March 2022.

4.1. Geographic application of the taxonomy

The foundation of the KGFT is the EU Taxonomy, which has been adapted for the Kenyan context. By adopting the principles of the EU Taxonomy and closely mirroring the rigor of TSC, the KGFT aims to maximise the potential for international harmonisation across these taxonomies. In parallel, the KGFT reflects Kenyan national environmental ambitions, policy, legislation and international commitments. Therefore, the KGFT is intended to be applied to economic activities underway in Kenya only.

While the KGFT is not intended to be applied extra-jurisdictionally, there may be cases regionally in which financial flows require the application of an appropriate taxonomy. It is advised that the respective jurisdictional circumstances and environmental ambitions are considered when applying the KGFT outside of Kenya, and that appropriate due diligence is applied to ensure that criteria at least as stringent as the KGFT are applied.

As per the preference of the KGFT custodians, the CBK, the 1st Edition KGFT is intended for application in the Kenyan banking sector only. However, subsequent revisions of the KGFT may expand the scope to include other financial sector actors based on stakeholder consultation and sector requirements.

4.2. Verification of taxonomy-related claims

Currently, there is no regulating agency in Kenya concerning taxonomy-alignment, whether initial or ongoing. The KGFT 1st Edition is a voluntary tool, and its use is subject to the respective decisions and agreements between parties to transactions. Monitoring of performance and taxonomy-conformance default should be addressed contractually between parties.

4.3. Grandfathering

Grandfathering in this context refers to exemption that permits entities to continue to recognise taxonomy-alignment of economic activities that were definitively aligned (in all regards) with the taxonomy, before the implementation of new adjustments to the taxonomy laws. In this regard:

- Economic activities coming into being that demonstrate taxonomy-alignment with KGFT first edition but not subsequent revisions, would have continued coverage because of the grandfathering principle.
- As this is the KGFT first edition, for historic or existing programmes, it must be shown, directly or through alternative methods, that all the requirements of the KGFT first edition have been met.

- It is vital that disclosure statements indicate what edition of the KGFT alignment is reported in terms of. Moreover, new economic activities should not be evaluated against outdated taxonomy editions.

4.4. Using proxies

In some cases, the metrics and thresholds for demonstrating alignment with TSC make reference to relevant environmental performance standards. In cases where a user believes that an existing environmental performance standard meets the rigor of the KGFT's metrics and thresholds but it is not explicitly mentioned, due diligence must be provided to prove the case for applying the standard as a proxy. The use of proxies which are not already referenced in the KGFT TSC must therefore demonstrate that all requirements are met, or be supplemented to close any gaps.

In the instances where proxies show alignment, these proxies can be put forward to the governance mechanism for formal recognition as taxonomy aligned approaches.

4.5. Determining taxonomy-aligned financial metrics for an economic activity

The KGFT provides criteria to determine taxonomy-alignment at an economic activity level. However, taxonomy-aligned finance can be disclosed a company, activity, or project level where relevant. Assessment may therefore be done at activity, project or company level as seen in Figure 4. An activity, project, company can be defined as follows:²⁵

- An activity refers to an economic activity as categorised using the KeSIC framework.
- A project refers to a smaller initiative that is undertaken within the context of an activity.
- A company refers to an entity which issues a capital markets instrument, for example debt issuance, equity issuance, and so on, or raises financing from a financial institution such as loans or project financing.

For instance, an activity such as cement manufacturing that is introducing a lower-carbon clinker facilitated by retrofitting a carbon capture, utilization, and storage (CCUS) technology may not meet thresholds for alignment at activity level but the project to decarbonise would be consistent with one of the environmental objectives.

²⁵ Monetary Authority of Singapore, 2023. Singapore-Asia Taxonomy for Sustainable Finance: 2023 Edition. Available at [link](#). [Accessed February 2024]

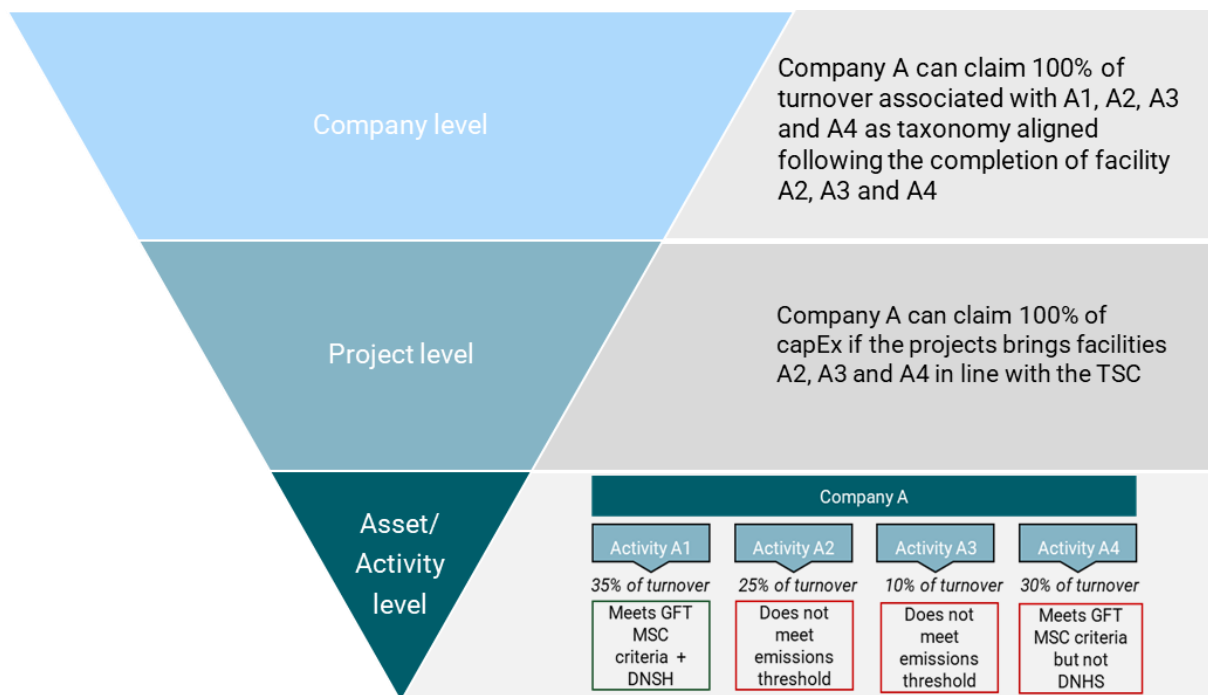


Figure 4: Determination of finance metrics from asset level to company level

Non-financial companies can report the proportion of their economic activities that meet the KGFT's requirements by converting their environmental performance into financial variables (revenue/turnover, CapEx, and OpEx). This provides investors and financial institutions with clear and comparative data to enable them make investment and financing decisions. The utilization of revenue, CapEx, or OpEx is determined by the vehicle being financed. Where capital is being extended to fund a specific activity or project, CapEx is more appropriate. The reporting can be done with guidelines elucidated in Table 4:

a) Turnover

Revenue or net turnover means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover. Overall turnover is equivalent to a firm's total revenues over a defined period.

Turnover ratios are used by financial analysts to understand a company's efficiency and profitability based on data found in financial statements.

Turnover enables the aggregation of taxonomy-aligned performance from an economic activity to a company level as seen in Figure 4. Some companies may need to aggregate from asset to economic activity level.

b) Capital expenditure

Capital expenditure (CapEx) is a payment for goods or services recorded, or capitalised, on the balance sheet instead of expensed on the income statement.

CapEx helps investors to analyse a company's investment in its existing and new fixed assets. Capital expenditures can also give an indication of a company's strategy for improving environmental performance and resilience.

c) Operating expenses

Operating expenses (OpEx) are shorter-term expenses required to meet the ongoing operational costs of running a business. While revenue is an indicator of ongoing operations and activities, and is the primary indicator for alignment, where new investment is being made in a technology to better align an activity, then CapEx would be a more appropriate indicator.

Table 4: Description of financial metrics for disclosure concerning taxonomy-aligned economic activities

Financial Metric	All environmental objectives excluding climate change adaptation	Climate change adaptation
Turnover	Turnover qualifies where the economic activity is taxonomically aligned and makes significant contribution to applicable MSC criteria of the environmental objective (climate mitigation) and the appropriate DNSH criterion. Turnover from a taxonomy-aligned economic activity can be counted if it achieves a level of environmental performance that is consistent with the desired end state of the relevant environmental objective	Turnover can only be recognized for activities which enable adaptation. Turnover cannot be recognized for adapted activities at this time. The rationale is that climate change adaptation is a continuous process that may never be completed at this stage. Further guidance on this may become available in the future.
CapEx and OpEx	Should be considered where costs incurred (Capex and, if applicable, OpEx) are part of a strategy to achieve taxonomy TSC for relevant MSC criteria of the environmental objective (climate mitigation) and relevant DNSH criteria	Should be considered when the costs incurred (CapEx and, if relevant, OpEx) are part of a plan to meet taxonomy TSC for substantial contribution to climate change adaptation and relevant DNSH criteria

Where an economic activity makes substantial contribution to more than one environmental objective, the following approach should be applied:

- Assess and disclose the fact that economic activities contribute to different objectives.
- The reporter is encouraged to disclose the significance of finance that is taxonomy-aligned, per environmental objective.
- When the reporter discloses the total taxonomy-aligned finance metrics, there should be no double accounting. i.e., if an economic activity is taxonomically-aligned – whether making contribution to one or multiple environmental objectives – the financial alignment is counted only once when totals are reported.

4.6. Disclosing taxonomy-aligned financial metrics

Banks may report taxonomy-aligned finance at a portfolio, fund, or debt instrument level. It should be reiterated that an economic activity is either taxonomy-aligned or not and therefore the finance related to that economic activity is either fully aligned or not at all. However, as economic activities roll up into various

categorisations, such as an investment portfolio, a green fund or a multi-project bond, the total finance at these levels can be reported as proportionally aligned. For example:

- Portfolio or fund level: a bank may report percentage taxonomy-aligned investment of their total portfolio or fund, with full disclosure as to the total amount of finance invested, or a Kenyan Shilling amount aligned.
- Debt instrument: if a debt instrument is providing CapEx or OpEx to a project or company in which multiple economic activities are financed, then the percentage taxonomy-alignment of the instrument, with full disclosure as to the total amount of finance invested, or a Kenyan Shilling amount aligned may be reported by the bank. For a general use-of-proceeds debt instrument, the taxonomy-alignment of the company must be calculated and reported. For project finance, the taxonomy-alignment of the project must be calculated and reported.

While quantitative disclosure of taxonomy-alignment is important, bank should also consider qualitative disclosure. This is particularly true for the proportion of finance which is not aligned. It would be beneficial for banks to let stakeholders know why portions of their portfolio/ fund/ debt instrument are not taxonomy-aligned and what their process is for ensuring alignment in future.

5. Sustainable Development Performance and Impact Reporting

Taxonomy-aligned activities may have significant co-benefits, contributing to multiple sustainable development aims. In making a significant contribution to at least one environmental objective, activities may make contributions to other environmental objectives and to social and development goals, such as decent work, wellbeing, and inclusive and sustainable communities and societies.

The taxonomy is anticipated to provide useful information for measuring, monitoring and reporting on ESG performance and impact of taxonomy-aligned activities.

It is also the intention of this taxonomy to encourage transparency through disclosure, including broader social and environmental impacts. While this document does not provide environmental and social performance indicators to be disclosed alongside those of taxonomic alignment, there are several resources which may be consulted to support assessment and disclosure against social impact performance indicators. Included here is an inexhaustive list of options, acknowledging that different taxonomy users may have different requirements regarding activity-, company- and economy-level reporting requirements:

- International Capital Market Association, June 2023 (or as updated) Harmonized Framework for Impact Reporting Handbook [Online] Available at <https://www.icmagroup.org/sustainable-finance/impact-reporting/green-projects/>
- International Capital Market Association, June 2023 (or as updated) Harmonised Framework for Impact Reporting for Social Bonds [Online] Available at <https://www.icmagroup.org/sustainable-finance/impact-reporting/social-projects>
- World Economic Forum (WEF) September 2020 Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, White Paper [Online] Available at

http://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf
and [Explore the Metrics > Measuring Stakeholder Capitalism | World Economic Forum \(weforum.org\)](#)

- Global Reporting Initiative (GRI) Standards, Various [Online] Available at <https://www.globalreporting.org/how-to-use-the-gri-standards/resource-center/>
- Sustainability Accounting Standards Board (SASB) Materiality Map [Online] Available at <https://sasb.org/standards/materiality-map/>
- United Nations Department of Economic and Social Affairs Statistics Division, February 2022 Global indicator framework for the Sustainable Development Goals and targets of the 2030 Agenda for Sustainable Development [Online] Available at https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%202022%20refinement_Eng.pdf

There is a wealth of impact analysis tools and frameworks available from different organisations including United Nations Environment Programme Finance Initiative (UNEP FI), World Business Council for Sustainable Development (WBCSD) and the World Benchmarking Alliance, amongst others to guide individual project impact evaluation if needed.

Suitable tools and indicator listings should be consulted, and further determination undertaken by the taxonomy user to identify the material impact indicators appropriate to be reported regarding the asset, project or activity.

6. General Challenges and Consideration in Applying the Taxonomy

6.1. Taxonomy application challenges

Defining and aligning to activities

A challenge anticipated in the application of the KGFT is related to aligning the types of investment or finance to a specific economic activity as identified by the KGFT. Part of this challenge is attributed to listed equity investments and debt investments. For example, bonds with unspecified use of proceeds and general-purpose loans that cover diverse corporate expenditures, make determining the eligibility of these investments challenging. Until such time as corporates are required to report on the alignment of their operations to taxonomic economic activities it is challenging to assess the eligibility of an investment in cases where the underlying company's activities are diversified.

Taxonomies will often give room for interpretation with regards to regulatory requirements and the interpretation of certain criteria. It is important that there are suitable processes that ensure alignment between reported activities and taxonomic criteria to support identification and assessment of activities in order to minimise risks of misinterpretation.

Availability and quality of data

An additional significant challenge is the availability of quality data and information to assess alignment with TSC of the KGFT. Granular data to evidence alignment with TSC is typically not publicly available data and in many instances can be complex and thereby requires sustainability expertise to adequately assess alignment.

6.2. Taxonomy application considerations

Taxonomic alignment where a client's activities span multiple categories

When a client receives financing that spans multiple KGFT sectors, allocating total exposure to economic activities associated with the KGFT becomes difficult and it may not be possible to classify the whole organisation/project/fund as taxonomy-aligned. In such instances, it is advised to, as far as possible define investment, loan, credit facility or use of proceeds to a specific asset or to project level and thereby split the client's exposure across activities for the purpose of classification. Narrowing down the economic activities that are aligned to the KGFT at the beginning of the assessment would be beneficial. This may mean prioritising company activities based on materiality.

When investment, loan, credit facility or use of proceeds is not specified, classify exposure based on clients' business activities. Identify the nature of the intended or existing contribution of the transaction/funds and decide into which KGFT category the transaction, activity or company falls. The KGFT offers the choice between economic activities which substantially contribute to climate change mitigation or climate change adaptation and acknowledges economic activities which contribute through own performance or as an enabling activity. This helps to provide a specific focus to the assessment and minimises the time needed to carry it out.

General considerations when applying the KGFT.

Below illustrate three general considerations when applying the KGFT:

1. At first, start simple, by selecting specific investments where quality granular data is readily available. To understand the exact scope of each activity to identify the most suitable match, test on a smaller portion of the investment portfolio or for activities for which Key Performance Indicators (KPIs) are available/comparable with KGFT criteria. This way you will start to become familiar with how the KGFT works and gain confidence in applying it to bigger investments.
2. The information required by the KGFT can be complex and it may be useful to involve sustainability expertise to assisting in the interpretation and the assessment of the data. Take a bottom-up approach to fairly assess company alignment with the Taxonomy. Where data is not available or unreliable, adopt a precautionary approach and be clear on data limitations.
3. In general, adaptation-related information is more difficult to find than mitigation-related information, as carbon emissions data now have a significant track record. Therefore, projects making substantial contribution to climate change mitigation are more likely to have the data needed to test alignment to the KGFT.

6.3. KGFT aspects for future consideration

The KGFT is a living document and subject to continuous review and refinement. The KGFT first edition contains several aspects which require additional technical development, technical review or further stakeholder engagement.

Expansion to other areas of the Kenyan financial sector

As indicated, the KGFT first edition is applicable to the Kenyan banking sector. However, the intention is to expand the document to apply to additional areas of the financial sector, such as pension funds, asset managers and insurance, subject to engagement with financial sector regulators via the Joint Financial Sector Regulators' Forum. The KGFT would require an update if expansion to additional financial sector actors is intended.

Completeness of included sectors

To identify sectors in the Kenyan economy most relevant for inclusion in the KGFT, multi-criteria analysis was performed considering Gross Domestic Product (GDP), Foreign Direct Investment (FDI), share of total private sector credit and GHG emissions. All sectors flagged in the top 10 were included in the KGFT except for Wholesale and Retail Trade, Repair of motor vehicles and motorcycles. Due the significant role that this sector plays in the Kenyan financial sector and trade, it was flagged as priority sector. However, to include economic activities from this sector in the KGFT further research is required into the priority economic activities based on financial and climate change metrics, as well as the potential of these activities to reach net zero or provide an enabling environment for the sector to reach net zero.

Gaps in Technical Screening Criteria

Several economic activities contained in the Appendices to the KGFT do not currently contain TSC. This is due to a requirement for additional research, a lack of international precedent and/or further stakeholder engagement. For example, the agricultural, forestry and construction economic activities require significant industry engagement and a thorough evaluation of national goals in these sectors ahead of formalising TSC. Including the economic activities in the KGFT although without TSC, indicates that financial flows associated with these activities are eligible as per the KGFT, but it is not yet possible to ascertain if they are aligned.

Governance process

The TWG is the custodian of the KGFT and responsible for the maintenance of the document. The TWG should consider the development of a governance mechanism to ensure the advancement and refinement of the KGFT. The governance mechanism should consider:

- Allowance for ad hoc and periodic review.
- Allowance for public input.
- Ensuring fair and robust oversight.

Transition elements

While the KGFT aims to set a standard for what can be considered 'green' finance, in the Kenyan context it may be necessary to consider standards for 'transition' finance. The tools, data and international precedent is not developed enough presently to integrate transition principles into the KGFT first edition. However, subject to financial sector requirement and maturity, this would be a beneficial area to consider exploring in subsequent editions.

Capacity building and awareness raising

A key input in catalysing financial sector transformation toward climate resilience is industry capacity building and awareness raising. Embedding the KGFT into the banking sector on a voluntary basis requires a good level of understanding and capability in the application of the required principles and criteria. KGFT uptake is reliant on the resources available within banking sector actors to apply KGFT criteria and disclose results. Therefore, it is important that the TWG prioritise knowledge dissemination across the industry. This can be undertaken through several channels, including webinars, online trainings, the development and provision of application tools, templates and guidance.

Banking sector actors report according to several national and international mandatory and voluntary standards and guidelines already. As a result, there may be hesitation to include KGFT requirements in their current systems and to disclose accordingly. Capacity building will assist in reducing the friction to uptake and develop understanding as to how KGFT reporting enhances and is streamlined with other disclosure obligations.

Regulatory application

In its current form the KGFT first edition is voluntary tool without a formal framework for enforcement. However, the CBK aims to allow for a period of voluntary uptake of disclosure and alignment according to the KGFT within the banking sector, ahead of mandatory regulation. The manner, structure and timeline of this regulation is still under review.

7. KGFT eligible sectors and activities

The Kenya Standard Industrial Classification (KeSIC) of all economic activities was used as a framework for classifying sector-specific activities. The scope of KeSIC is restricted to the classification of units engaged in economic production as defined by System of National Accounts (SNA) which states that “economic production is an activity, carried out under the responsibility, control and management of an institutional unit that uses inputs of labour, capital, and goods and services to produce outputs of goods and services”. The KeSIC describes the classification of economic activities according to the UN International Standard Industrial Classification (SIC). The KeSIC is largely compatible with other international frameworks and provides a sufficient degree of granularity. Based on the review of best practice approaches adopted by other taxonomies, the Weighted Average Method and Elimination and Choice Translating Reality (ELECTRE) were used for identifying the sectors of highest priority in Kenya. The sectors were prioritised based on Gross Domestic Product (GDP), Foreign Direct Investment (FDI), share of total private sector credit, and GHG emissions.

Priority Sector 1: Manufacturing			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Manufacture of low carbon and resource efficiency technologies	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 1.1
Manufacture of Cement	Climate change mitigation and climate change adaptation	2394	Appendix 1.2
Manufacture of Aluminium	Climate change mitigation and climate change adaptation	2420	Appendix 1.3
Manufacture of Iron and Steel and ferroalloys	Climate change mitigation and climate change adaptation	2410	Appendix 1.4
Manufacture of Hydrogen	Climate change mitigation and climate change adaptation	2011	Appendix 1.5
Manufacture of other inorganic basic chemicals	Climate change mitigation and climate change adaptation	2011	Appendix 1.6
Manufacture of other organic basic chemicals	Climate change mitigation and climate change adaptation	2021, 2022, 2023, 2029	Appendix 1.7
Manufacture of fertilizers and nitrogen compounds	Climate change mitigation and climate change adaptation	2012	Appendix 1.8

Priority Sector 1: Manufacturing			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Manufacture of plastics in primary form	Climate change mitigation and climate change adaptation	20131	Appendix 1.9
Manufacture of Glass	No technical screening criteria available in KGFT v1.0	2310	Appendix 1.10
Manufacture of low carbon resources	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.12
Pollution prevention and control	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.13
Reuse, redistribution, refurbishment and recycling facilities	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.14
Remanufacturing of electromechanical products	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.15
Eco-efficient products and processes	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.16
Manufacture of Paper	No technical screening criteria available in KGFT v1.0	1701	Appendix 1.17

Priority Sector 1: Manufacturing			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Manufacture of Renewable Energy technologies	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.18
Manufacture of equipment for the production of hydrogen and use of hydrogen	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.19
Manufacture of batteries	No technical screening criteria available in KGFT v1.0	2720	Appendix 1.10

Priority Sector 2: Agriculture, forestry and fishing			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Forestry and land Rehabilitation	No technical screening criteria available in KGFT v1.0	02	Appendix 2.1
Crop Production	No technical screening criteria available in KGFT v1.0	01	Appendix 2.2

Priority Sector 2: Agriculture, forestry and fishing			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Livestock Production	No technical screening criteria available in KGFT v1.0	014	Appendix 2.3
Ecosystem Conservation	No technical screening criteria available in KGFT v1.0	9495	Appendix 2.4
Fisheries and Aquaculture	No technical screening criteria available in KGFT v1.0	03	Appendix 2.5
Wildlife management	No technical screening criteria available in KGFT v1.0	9495	Appendix 2.6
Eco-Tourism	No technical screening criteria available in KGFT v1.0	9495	Appendix 2.7

Priority Sector 3: Mining and quarrying			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Mining Gold	No technical screening criteria available in KGFT v1.0	0724	Appendix 3.1

Priority Sector 4: Electricity, gas, steam and air conditioning supply			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Production of electricity, heating and cooling from Solar PV, Concentrated Solar Power, Wind Power and Ocean Energy	Climate change mitigation and climate change adaptation	3510	Appendix 4.1
Production of electricity, heating and cooling from Hydropower	Climate change mitigation and climate change adaptation	3510	Appendix 4.2
Production of electricity, heating and cooling from Geothermal	Climate change mitigation and/or climate change adaptation	3510	Appendix 4.3

Priority Sector 4: Electricity, gas, steam and air conditioning supply			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Production of electricity, heating and cooling from Bioenergy	Climate change mitigation and climate change adaptation	3510	Appendix 4.4
Transmission and Distribution of Electricity	Climate change mitigation and climate change adaptation	3510	Appendix 4.5
Storage of Electricity	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 4.6
Storage of Thermal Energy	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 4.7
Storage of Hydrogen	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 4.8
Transmission and distribution networks for renewable and low-carbon gases	Climate change mitigation and climate change adaptation	3520	Appendix 4.9
District Heating/Cooling Distribution	Climate change mitigation and climate change adaptation	3530	Appendix 4.10

Priority Sector 4: Electricity, gas, steam and air conditioning supply			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Installation and operation of Electric Heat Pumps	Climate change mitigation and climate change adaptation	3530	Appendix 4.11
Production of Heating/Cooling using Waste Heat	Climate change mitigation and climate change adaptation	3530	Appendix 4.12
Electricity generation from renewable non-fossil gaseous and liquid fuels	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 4.13
Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 4.14
Production of heat/cool from renewable non-fossil gaseous and liquid fuels	Climate change mitigation	No specific KeSIC code	Appendix 4.15
Manufacture of Biomass, Biogas or Biofuels	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 4.16

Priority Sector 4: Electricity, gas, steam and air conditioning supply			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Production of electricity, heating and cooling from gravity potential energy	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 4.17

Priority Sector 5: Water supply, sewerage, waste management and remediation			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Water collection, storage, distribution treatment and supply	Climate change mitigation and climate change adaptation	3600	Appendix 5.1
Centralized wastewater treatment	Climate change mitigation and climate change adaptation	3700	Appendix 5.2
Anaerobic digestion of sewage sludge	Climate change mitigation and climate change adaptation	3700	Appendix 5.3

Priority Sector 5: Water supply, sewerage, waste management and remediation			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Separate collection and transport of non-hazardous waste in source segregated fractions	Climate change mitigation and climate change adaptation	3811	Appendix 5.4
Anaerobic digestion of bio-waste	Climate change mitigation and climate change adaptation	38210	Appendix 5.5
Composting of biowaste	Climate change mitigation and climate change adaptation	38210	Appendix 5.6
Material recovery from non-hazardous waste	Climate change mitigation and climate change adaptation	38210	Appendix 5.7
Landfill gas capture and utilization	Climate change mitigation and climate change adaptation	3900	Appendix 5.8
Direct Air Capture of CO2	Climate change mitigation and climate change adaptation	3900	Appendix 5.9
Capture of Greenhouse Gas Emissions	Climate change mitigation and climate change adaptation	3900	Appendix 5.10

Priority Sector 5: Water supply, sewerage, waste management and remediation			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Transport of CO2	Climate change mitigation and climate change adaptation	3900	Appendix 5.11
Permanent Sequestration of Captured CO2	Climate change mitigation and climate change adaptation	3900	Appendix 5.12
Renewal of water collection, treatment and supply systems	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 5.13
Renewal of wastewater collection and treatment	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 5.14
Water monitoring	No technical screening criteria available in KGFT v1.0	2651	Appendix 5.15
Flood defence	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.16
Nature based solutions	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.17

Priority Sector 5: Water supply, sewerage, waste management and remediation			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Reuse, redistribution, refurbishment, recycling storage and handling infrastructure	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.18
Water saving, recycling and reuse technologies	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.19
Pollution prevention and control	No technical screening criteria available in KGFT v1.0	3900	Appendix 5.20
Handling and Preparation	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.21
Water treatment	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.22

Priority Sector 6: Transportation and storage			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Commuter road, passenger rail and freight rail transport	Climate change mitigation and climate change adaptation	4911, 4912, 4921	Appendix 6.1
Infrastructure for low carbon transport	Climate change mitigation and climate change adaptation	4210, 4290	Appendix 6.2
Passenger cars, road commercial vehicles and road freight transport	Climate change mitigation and climate change adaptation	4922	Appendix 6.3
Inland passenger and freight water transport	Climate change mitigation and climate change adaptation	5021, 5022	Appendix 6.4
Aviation	No technical screening criteria available in KGFT v1.0	5110	Appendix 6.10
Operation of personal mobility devices	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 6.5
Retrofitting of inland water passenger and freight transport	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 6.6
Sea and coastal freight water transport	Climate change mitigation and climate change adaptation	5012	Appendix 6.7

Priority Sector 6: Transportation and storage			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Sea and coastal passenger water transport	Climate change mitigation and climate change adaptation	5011	Appendix 6.8
Retrofitting of sea and coastal freight and passenger water transport	Climate change mitigation	No specific KeSIC code	Appendix 6.9

Priority Sector 7: Real estate activities			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Acquisition and ownership	Climate change mitigation	68	Appendix 7.1

Priority Sector 8: Construction			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Construction of new buildings	Climate change mitigation and climate change adaptation	4100	Appendix 8.1
Building renovation	Climate change mitigation and climate change adaptation	4100	Appendix 8.2
Individual measures and professional services	Climate change mitigation and climate change adaptation	43	Appendix 8.3
Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 8.4
Sustainable cities/resilient infrastructure	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 8.5
Spatial Planning	No technical screening criteria available in KGFT v1.0	7110	Appendix 8.6

Priority Sector 9: Information and communications			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Data processing, hosting and related activities	Climate change mitigation	6311	Appendix 9.1
Data-driven solutions for GHG emission reductions	Climate change mitigation	6311	Appendix 9.2
Computer programming, consultancy and related activities	Climate change adaptation	6201	Appendix 9.3
Programming and broadcasting activities	Climate change adaptation	60	Appendix 9.4

Priority Sector 10: Financial and insurance activities			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Non-life insurance	Climate change adaptation	6512	Appendix 10.1

Priority Sector 10: Financial and insurance activities			
Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Link to Technical Screening Criteria
Reinsurance	Climate change adaptation	6520	Appendix 10.2

PART D – TECHNICAL SCREENING CRITERIA

8. Making Significant Contribution, Do No Significant Harm and Minimum Social Safeguard criteria per eligible economic activity

8.1. See Appendices for sectoral criteria:

Appendix 1: Manufacturing

Appendix 2: Agriculture, forestry and fishing

Appendix 3: Mining and quarrying

Appendix 4: Electricity, gas, steam and air conditioning

Appendix 5: Water supply, sewerage, waste management and remediation

Appendix 6: Transportation and storage

Appendix 7: Real estate

Appendix 8: Construction

Appendix 9: Information and Communication

Appendix 10: Financial and insurance activities

8.2. Screening criteria for activities Making a Substantial Contribution to climate change adaptation

The screening criteria are specific characteristics that can be used to determine whether an economic activity provides a substantial contribution to adaptation. These screening criteria vary between 'adapted' activities (Table 5) and activities that enable adaptation (Table 6).

Table 5: Screening criteria (A) for 'adapted' activities

Criterion	Description
A1: Reducing material physical climate risks	The economic activity must reduce all material physical climate risks to that activity to the extent possible and on a best effort basis.
A1.1	The economic activity integrates physical and non-physical measures aimed at reducing - to the extent possible and on a best effort basis - all material

	physical climate risks to that activity, which have been identified through a risk assessment.
A1.2	<p>The above-mentioned assessment has the following characteristics:</p> <ul style="list-style-type: none"> • considers both current weather variability and future climate change, including uncertainty; • is based on robust analysis of available climate data and projections across a range of future scenarios; • is consistent with the expected lifetime of the activity.
A2: Supporting system adaptation	The economic activity and its adaptation measures do not adversely affect the adaptation efforts of other people, nature and assets.
A2.1	The economic activity and its adaptation measures do not increase the risks of an adverse climate impact on other people, nature and assets, or hamper adaptation elsewhere. Consideration should be given to the viability of 'green' or 'nature-based-solutions' over 'grey' measures to address adaptation.
A2.2	The economic activity and its adaptation measures are consistent with sectoral, regional, and/or national adaptation efforts.
A3: Monitoring adaptation results	The reduction of physical climate risks can be measured.
A3.1	Adaptation results can be monitored and measured against defined indicators. Recognising that risk evolves over time, updated assessments of physical climate risks should be undertaken at the appropriate frequency where possible.

Table 6: Screening criteria (B) for activities that enable adaptation

Criterion	Description
B1. Supporting adaptation of other economic activities	The economic activity reduces material physical climate risk in other economic activities and/or addresses systemic barriers to adaptation. Activities enabling adaptation include, but are not limited to, activities that: Promote a technology, product, practice, governance process or innovative uses of existing technologies, products or practices (including those related to natural infrastructure); or, Remove information, financial, technological and capacity barriers to adaptation by others.

B1.1	<p>The economic activity reduces or facilitates adaptation to physical climate risks beyond the boundaries of the activity itself. The activity will need to demonstrate how it supports adaptation of others through:</p> <ul style="list-style-type: none"> • an assessment of the risks resulting from both current weather variability and future climate change, including uncertainty, that the economic activity will contribute to address based on robust climate data; • an assessment of the effectiveness of the contribution of the economic activity to reducing those risks, taking into account the scale of exposure and the vulnerability to them
B1.2	<p>In the case of infrastructure linked to an activity enabling adaptation, that infrastructure must also meet the screening criteria A1, A2 and A3.</p>

8.3. Generic Do No Significant Harm Criteria

8.3.1. Climate change adaptation

The activity must ensure that it does not negatively impact adaptation measures of other assets or economic activities.

All investments in physical assets must be assessed for physical climate risk and vulnerability to ensure that they are resilient, and measures must be taken to reduce the vulnerability to acute and chronic climate risks.

Climate risk and vulnerability assessments must:

1. Screen the activity to identify the physical climate risks that may impact its operational performance during its expected lifetime
2. For identified risks, evaluate the materiality of the physical climate risks on the activity needs to be conducted
3. Identify adaptation solutions that can reduce the identified physical climate risk

The climate projections and assessment of impacts must be based on best practice and available guidance and consider the state-of-the-art science for vulnerability and risk analysis and related methodologies in line with the most recent Intergovernmental Panel on Climate Change reports²⁶, scientific peer-reviewed publications, and open source or paid models

The climate risk and vulnerability assessment should be proportionate to the scale of the activity and its expected lifespan, such that:

²⁶ Assessments Reports on Climate Change: Impacts, Adaptation and Vulnerability, published periodically by the Intergovernmental Panel on Climate Change (IPCC), the United Nations body for assessing the science related to climate change produces, <https://www.ipcc.ch/report/ar6/wg2>

- For investments into activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using downscaling of climate projections.
- For all other activities, the assessment is performed using high resolution, state-of-the-art climate projections across a range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30 years climate projections scenarios²⁷ for major investments.

The economic operator must develop a plan to implement adaptation solutions to reduce material physical climate risks to the activity. Those adaptation solutions do not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of assets and of other economic activities and are consistent with local, sectoral, regional or national adaptation efforts. For activity upgrading or altering existing assets or processes, the adaptation solutions identified need to be implemented within five years from the start of the activity.

For new activities and existing activities using newly built physical assets, the economic operator must integrate adaptation solutions that reduce the most critical identified physical climate risks that are material to that activity.

8.3.2. Sustainable use of water and marine resources

Ensure legal compliance by fulfilling the requirements of Kenyan water legislation which includes but is not limited to the Environmental Management and Coordination (Water Quality) Regulations, 2006, and the Water Act 2012, [Draft: EMCA Regulations including Water Quality Regulations 2023], and The Environmental Management and Co-ordination (Wetlands, Lakeshores, and Sea Shores Management) Regulations 2009, where applicable. Identify and manage risks related to water quality and/or water consumption at the appropriate level and in alignment with the latest National Resource Management Strategies. Where water use/conservation management plans are required by Kenyan legislation, these plans are to be developed in consultation with relevant stakeholders.

8.3.3. Ecosystem protection and restoration

Ensure legal compliance by ensuring an Environmental Impact Assessment (EIA) has been completed in accordance with the Kenyan Environmental Management and Coordination Act (Act No. 8 of 1999) as amended or other equivalent national provisions or international standards (e.g. IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks) whichever is stricter and any required mitigation measures for protecting biodiversity/eco-systems, in particular UNESCO World Heritage and Key Biodiversity Areas, have been implemented where relevant.

For sites/operations located in or near to biodiversity-sensitive areas, ensure that an appropriate assessment has been conducted in compliance with The Environmental Management and Co-ordination (Conservation of Biological Diversity and Resources, and Access to Genetic Resources and Benefit Sharing) Regulations, 2006 or other equivalent national provisions or international standards (e.g. IFC Performance Standard 6) – whichever is stricter based on the conservation objectives of the protected area. For such sites/operations, ensure that:

²⁷ Future scenarios include Intergovernmental Panel on Climate Change representative concentration pathways RCP2.6, RCP4.5, RCP6.0 and RCP8.5

- A site-level biodiversity management plan exists and is implemented in alignment with the IFC Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources;
- All necessary mitigation measures are in place to reduce the impacts on species and habitats; and
- A robust, appropriately designed and long-term biodiversity monitoring and evaluation programme exists and is implemented.
- Identify and manage risks related to biodiversity conservation in alignment with the latest National Biodiversity and Action Plans.

8.3.4. Pollution prevention

Ensure emissions to air and water are based on the application of the Best Practicable Environmental Option (BPEO) principle informed by the Best Available Technology/Technique (BAT) approach in alignment with Kenyan environmental legislation such as The Environment Management and Co-ordination (Air Quality) Regulations 2014, and no significant cross-media effects occur.

8.4. Minimum Social Safeguards

Companies and other issuers disclosing against the KGFT need to assess compliance with:

1. The Constitution of Kenya. Article 27 provides for the right to equality and freedom from discrimination. Article 41 stipulates that every person has a right to fair labour relations, and every worker has the right to fair remuneration, reasonable working conditions, and to join or participate in a trade union.
2. The Employment Act 2007
3. The Labour Institutions Act of 2007
4. Occupational Safety and Health Act 2007
5. The Work Injury Benefits Act 2007
6. The Industrial Court Act 2011

As well as the standards in:

7. International Labour Organisation (ILO) core labour conventions;
8. The OECD Guidelines on Multinational Enterprises; and
9. The UN Guiding Principles on Business and Human Rights.



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