



## CENTRAL BANK OF KENYA

### EUROPEAN UNION-KENYA GREEN DIPLOMACY CONFERENCE

#### Remarks by Dr. Patrick Njoroge

Governor, Central Bank of Kenya

Tuesday, May 11, 2021

*As Prepared For Delivery*

#### **Excellencies, Ladies and Gentlemen:**

I am pleased to be with you today and grateful to the organizers for arranging this important conference. We meet at an important juncture, where the ravages of floods, droughts and other natural catastrophies continue to impact Africa, Kenya included, despite contributing the least to global emissions. We also meet as the global discourse increasingly shifts to recovering from the coronavirus (COVID-19) pandemic and restoring the livelihoods shattered by the pandemic. Transitioning to a green economy will be at the heart of sustainable growth and shared prosperity for our citizens.

At the Central Bank of Kenya (CBK), our vision is for a banking sector that *works for and with Kenyans*. The sector should not only provide financial services, but should also ensure they meet the needs of customers while also being aligned to environmental, social and governance considerations. In a nutshell, we aspire for a world *where all financial services are green*. And each step brings us closer to that goal.

What have we achieved so far towards realizing this vision? I will highlight three milestones.

- **First**, in 2015, the Kenya Bankers Association (KBA) launched the Sustainability Finance Initiative (SFI). The SFI is aimed at raising awareness on environmental, social and governance risks and financing within the Kenyan banking sector. KBA through SFI has set-up a comprehensive online training designed to enable financiers to create long-term value for the economy, society and the environment. Currently, 38 banks are participating in the training and over 30,000 bankers have been enrolled.

- **Second**, the first corporate green bond in East and Central Africa, issued by the Acorn Group, was listed at the Nairobi Securities Exchange (NSE) in January 2020. The bond was admitted on the International Securities Market (ISM) segment at the London Stock Exchange (LSE) in January 2020.
- **Third**, in November 2020, KCB Bank, Kenya's largest bank was accredited by the United Nations Green Climate Fund (GCF) as the first financial intermediary of the implementation of green financing in East Africa. As you are aware, the GCF is the world's largest climate fund, mandated to support developing countries raise and realize their Nationally Determined Contributions (NDC) ambitions towards low-emissions, climate-resilient pathways. It is a critical element of the historic Paris Agreement.

While acknowledging these milestones, a lot more needs to be done to green Kenya's financial system. Accordingly, in this Year of Climate Action in the lead up to COP-26, we will work with the banking sector to develop guidelines on climate risk assessment and embedding climate related financial reporting disclosures in the financial sector.

Green finance presents significant opportunities to banks and other financiers. However, as regulators, we must always be alive to climate risks. Climate risk is a growing threat to the financial sector from physical risk to the loan portfolio arising from *inter alia* floods and drought. Further, transition risk may arise from the move to clean energy with abandonment of previous well entrenched energy sources such as coal. Bank customers may therefore be left with obsolete *stranded assets* that were used to secure loans.

We must therefore provide guidance to banks on how to identify, measure and mitigate climate risks. Further, as a regulator we need to incorporate climate risk in our prudential surveillance framework as we pursue our core mandate of financial stability.

On disclosures, we do not intend to reinvent the wheel but rather draw from the Task Force on Climate-related Financial Disclosures (TCFD or Task Force). The Taskforce designed a set of recommendations for consistent disclosures that will help financial market participants understand their climate-related risks. Beyond the disclosures, the structuring of the recommendations around the core institutional elements of governance, strategy, risk management and metrics and targets will embed integration of climate related risks and opportunities in banks.

In our climate action agenda for Kenya's banking sector, we cannot walk alone. In the words of a proverb, *if you want to go far, go together*. We will strive to walk with others on the same path, but who are further ahead. In this regard, collaboration with the European Union (EU) and in particular the European Investment Bank (EIB) is pertinent. We note the EIB's transformation to being the *EU's Climate Bank* with an associated **Climate Bank Roadmap-2021-25**.

EIB has been actively supporting Kenya's private sector development through the provision of medium to long term funding to commercial banks for on-lending to Small and Medium Enterprises (SMEs) and microenterprises. In the past 10 years, EIB has availed over Euro 300 million to Kenyan banks to support critical sectors including agriculture, tourism, manufacturing, transport, construction, health and education.

We look forward to continued support from the EIB to Kenyan commercial banks as they embark on the climate action journey. The support required will also include technical and advisory support as we green our financial system.

We remain committed to walking with our development partners including the EU, private sector and other stakeholders to ensure that Kenya stays at the forefront of innovation in green finance in Africa.

I look forward to the outcomes of this important conference as we build global collective momentum in this Year of Climate Action.

**Thank You**