



Corporate
Leaders Group
Africa



Beyond the illusion of innovative climate finance at scale in Africa

A market-informed
blueprint for Kenya's just
and resilient climate
transition



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Citing this report

University of Cambridge Institute for Sustainability Leadership (CISL). (2026). *Beyond the illusion of innovative climate finance at scale in Africa: A market-informed blueprint for Kenya's just and resilient climate transition* (Cambridge, UK: Cambridge Institute for Sustainability Leadership).

Acknowledgements

The author thanks CISL's Corporate Leaders Group Africa, especially the Sustainability Leadership Forum in Kenya, without whom this paper would not have been possible; Stefan Raubenheimer for his invaluable insights into the architecture of country investment platforms; and the CISL Africa team, particularly Professor Richard Calland, Susan Njoroge and Dr Sibusiso Nkomo. The author appreciates the reviews received from Trisha Mani (CISL) and Michael Sheren. Photo by [Joecalih](#).

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Executive summary

Kenya stands at a decisive moment in shaping a climate-resilient future. With a power grid already comprised of more than 80 per cent renewable energy and one of the most advanced financial inclusion landscapes in the Global South, Kenya has unique assets to lead on climate-aligned development. Yet, despite strong ambition, sustainable infrastructure, progressive policies and international recognition, a persistent disconnect remains between climate finance needs and what is mobilised and disbursed. Estimates suggest Kenya requires over US\$40 billion by 2035 to fulfil its Nationally Determined Contribution (NDC).¹ However, current flows fall dramatically short and are predominantly driven by international actors with limited influence on how capital reaches the most climate-vulnerable communities.

This paper responds to a central question: What transformational leadership and the associated structural changes are needed to close the enduring gap between Kenya's climate finance ambition and delivery? Rather than offering another landscape analysis of gaps, this research interrogates why the gaps persist. It identifies seven flawed assumptions underpinning Kenya's current finance model. These assumptions are informed by extensive discussions with those who mobilise and deploy capital, including commercial banks, microfinance institutions, Savings and Credit Cooperative Organisations (SACCOs) and insurers. The seven erroneous assumptions are as follows:

1. Concessional capital will solve affordability challenges.
2. Financial institutions require external capital for green and climate-aligned financing.
3. Kenya's reputation for financial innovation naturally extends to climate lending.
4. Regulatory disclosure alone will shift capital.
5. Mitigation-focused finance will deliver transformation.
6. Carbon revenues can be easily integrated into credit models.
7. Expanding gas infrastructure and financing is a necessary pathway for Kenya's green transition.

Drawing on direct engagement with Kenyan financial institutions, this paper offers a grounded and at times contrarian perspective on why climate finance has failed to scale in Kenya. More importantly, it offers crucial recommendations showing what it will take to change that.

The central argument is straightforward: climate finance will not scale until it becomes commercially profitable, institutionally coherent and genuinely adapted to Kenya's market structure, including the informal and climate-vulnerable communities that remain largely excluded from formal finance.

The paper challenges seven erroneous assumptions as cited above that have long shaped the climate finance discourse.

The first and second assumptions focus on capital. A common view holds that Kenyan financial institutions cannot expand green lending without an injection of external or concessional funding. The evidence gathered for this paper tells a different story. Kenyan banks are not short of capital; they are short of commercially compelling reasons to deploy it into climate-relevant sectors. Blended finance and

concessional instruments have a role to play in managing risk, but they are not the binding constraint. This finding connects to a wider shift in thinking across Africa. Rather than waiting indefinitely for external capital to arrive, the more urgent task is creating the conditions under which domestic capital can be mobilised. For Kenya, that means focusing less on attracting foreign concessional funds and more on building the incentive structures, risk frameworks and market conditions that make green lending a rational commercial decision for local institutions.

The third assumption concerns innovation in the financial sector, which in Kenya is primarily driven by digital expansion. Kenya's expansion of mobile money, agency banking and fintech-enabled services has produced one of the most financially inclusive systems in the developing world. Despite this achievement, the paper cautions against conflating access with innovation. Digital platforms have made it easier to distribute basic financial services efficiently and at scale. Climate finance demands something different: innovation in what is being financed, not just how it is delivered. Emerging low carbon solutions, adaptation investments and climate transition activities do not fit neatly into conventional lending models, regardless of how sophisticated the distribution infrastructure has become. Rather than treating this as a limitation, the paper argues that Kenya's financial inclusion infrastructure provides a foundation on which genuine climate finance innovation can be built.

The fourth assumption discussed is premised on regulatory enhancements as sole drivers of climate action. While Kenya has a sophisticated regulatory environment, regulation alone is insufficient to drive private investment, particularly when regulation lacks co-ordination and is perceived as unduly burdensome for private institutions.

Finally, the fifth, sixth and seventh assumptions are concerned with the substantive allocation of climate finance, specifically interrogating the tension between what is readily financeable and what is actually required to deliver an effective and equitable transition.

A Structural Solution: A National Country Investment Platform.

In response to these structural misalignments between finance ability and actual transition needs, the study advances a practical institutional solution aimed at reorienting capital towards priority interventions. It proposes the development of a national country investment platform, a co-ordinating mechanism designed to mobilise domestic and international capital, align financial incentives with national climate priorities, and catalyse the kinds of financial innovation the climate transition requires. Such a platform would do more than move money. It would de-risk domestic lending through well-structured guarantees, develop regulatory tools that shape balance-sheet behaviour, and critically, place financial institutions, county governments and communities at the centre of decision-making rather than at the periphery. This last point is not incidental. Ensuring that climate finance flows to where vulnerability is greatest requires integrating local actors as genuine participants, not just recipients.

The findings position Kenya at an important inflection point. The architecture, the institutions and the domestic capital exist. What is needed now is the political will and institutional co-ordination to bring them together. Designed well, a national investment platform would not simply improve the efficiency of climate finance flows, it would offer Kenya a vehicle for a just transition rooted in its own realities rather than imported templates. That is Kenya's opportunity, and this paper makes the case for seizing it. It is Kenya's transformational leadership opportunity.

Introduction

Kenya stands at a pivotal moment in its economic and climate transition. Unlike in many developing economies, Kenya's power grid is already predominantly green. Approximately 83 per cent of Kenya's installed electricity capacity is from renewable energy sources, which include geothermal, hydro, wind and solar power.² Yet, 25 per cent of the population lack access to electricity and energy affordability remains a significant barrier to equitable development. As the country strives to increase the renewable energy share to 100 per cent by 2030 and ensure universal energy access, the real challenge is in conceptualising green economic growth as a driver of poverty reduction. This means maximising opportunities for value addition, productive jobs, social equity and innovation-led competitiveness. This ambition needs to be translated to financeable priorities to promote a transition that is truly just.

The concept of a 'just transition' originated from labour unions in the 1980s, driven by the realisation that efforts towards environmental sustainability and decarbonisation could impact jobs and communities heavily reliant on fossil fuel industries. Over time, the concept has evolved into a key aspect of global climate policy, especially since the preamble of the 2015 Paris Agreement explicitly recognised its significance. In simple terms, the principles of a just transition seek to ensure that as economies transition towards a low carbon future, the shift is "fair, inclusive, and socially equitable".³ In Africa, the explicit right to a just transition is frequently referenced when dealing with the numerous strategic tensions raised by a shift to a greener economy. Currently, at least ten African countries reference a just transition directly or indirectly in their Nationally Determined Contributions (NDCs), including Kenya.

For Kenya, like most African societies, a just transition is particularly pertinent given the challenges of poverty and social inequities. Financial inclusion is a critical component of this transition, as access to financial services such as savings, credit, insurance and digital financial products can empower communities to build resilience, improve livelihoods, invest in cleaner technologies, and gain access to energy and food security. Kenya has been on a journey of scaling financial inclusion, achieving remarkable success in the last 12 years. Over 80 per cent of Kenyan adults have bank accounts, up from lows of 25 per cent in 2007. This leap is largely thanks to mobile money, which made financial services accessible to millions.

At the same time, East Africa has mobilised the highest total amount of climate finance in Africa, with Kenya leading the way. Multilateral development banks (MDBs) and bilateral agreements are the leading sources of climate finance for the continent, accounting for approximately 93 per cent of the Organisation for Economic Co-operation and Development (OECD)-reported mobilised climate finance for the continent (Jachnik et al., 2015). However, this is still far from sufficient. Kenya, like many African countries, remains grossly below the levels of climate finance needed to meet its mitigation and adaptation goals. The reliance on donor-led instruments also limits flexibility and local ownership, highlighting the urgent need for innovative, scalable and domestically embedded financing solutions. Despite Kenya's well-defined climate ambition and the clear articulation of financing needs in its NDC, a persistent disconnect remains between what is required, what is mobilised and what is ultimately disbursed into the real economy. Billions of dollars are committed each year through international climate finance frameworks, yet only a small fraction reaches the households, farmers, small and medium-sized enterprises (SME) and counties most vulnerable to climate shocks. This gap, which has been acknowledged across Conference of the Parties (COP) negotiations and development finance discourse for a long time, points to a deeper

structural challenge. This paper argues the current climate finance architecture is not aligned with the way capital flows in Kenya's economy.

To understand why finance fails to translate into impact (at the local level), this paper centres on the perspectives of domestic financial institutions and specifically commercial banks, Savings and Credit Cooperative Organisations (SACCOs) and insurers who act as the primary mobilisers, intermediaries and deployers of capital. These institutions already have a proven track record of delivering finance at scale, as it is through them that Kenya has achieved one of the most remarkable financial inclusion transformations globally, but not in an impactful or sustainable way. The same network of financial actors, technologies and trust-based relationships that enabled financial inclusion should, in theory, provide the fastest pathway to scale climate finance.

The reality is climate lending has not become a core business line for the Kenyan financial sector. Understanding why reveals critical insights into the market failures, incentive gaps, regulatory constraints and risk perceptions that continue to impede progress. It also reveals what a truly innovative, context-specific climate finance model must look like in Kenya, grounded in Kenya's financial realities, institutional strengths and inclusion infrastructure. This paper therefore asks: What can Kenya's financial institutions teach us about how to mobilise and deploy climate finance at scale? And how might those lessons inform the design of a country investment platform capable of delivering a just, inclusive and resilient transition?

Approach

The research, largely qualitative in methodology, examines the structural, institutional and financial dynamics shaping climate finance mobilisation in Kenya. The paper then looks to identify pathways towards a nationally co-ordinated inclusion and impactfully driven financing model. First, a policy and document review to assess the enabling environment for a national climate finance platform. This includes a critical analysis of Kenya's climate finance policies, financial inclusion strategies, just transition commitments, and available term sheets for climate-related financial instruments. The review evaluates pricing structures, conditionalities, tenors (remaining length of time until a financial contract, loan or investment matures and must be fully repaid), and deployment mechanisms to determine their alignment with local needs and the country's just transition ambitions. Second, semi-structured key informant interviews with various commercial and sustainability leads of Kenyan financial institutions and technical experts involved in South Africa's Just Energy Transition Plan (JETP) and Uruguay's sustainable sovereign bond model. Third, structured focus group discussions with members of CISL's Corporate Leaders Group in Kenya, the Sustainability Leadership Forum, to co-create recommendations for a context-specific and innovative financing model that effectively strengthens the role of domestic financial institutions in delivering climate finance equitably. The group includes executives representing the telecommunications, manufacturing and financial services sectors. The co-creation approach ensures the proposed model is grounded in local market realities, leverages Kenya's strengths in financial inclusion, and is informed by the lived experience of key financial ecosystem actors.

1. The landscape of climate and green finance in Kenya

1.1 Kenya's financial demand for climate resilience and green development

Kenya faces significant challenges in addressing the pressing impacts of climate change while pursuing sustainable development, particularly as the economy relies heavily on climate-sensitive sectors. The dominant sectors shaping Kenyan gross domestic product (GDP) include agriculture, water, energy and tourism, making it highly susceptible to climate variability and extreme events. Past climate-related disasters, such as the worst drought in 40 years experienced in 2024, caused substantial economic losses estimated in billions of shillings. Furthermore, it led to displacement, food insecurity and increased poverty for millions across the country. As climate-induced disasters rise, building climate-resilient systems is just as critical as decarbonisation in shaping Kenya's development trajectory.

Consequently, substantial financial resources are required to implement mitigation and adaptation measures that align with Kenya's climate goals. However, estimating these needs presents inherent difficulties. The *Landscape of Sustainable Finance* report by the Kenya Bankers Association⁴ highlights the variability and inconsistencies in estimates of Kenya's green and climate finance needs, with figures ranging from US\$29 billion to US\$170 billion between 2022 and 2050. This wide range underscores the challenges in establishing a clear, accurate picture of the country's actual fiscal requirements, primarily due to differing methodologies, data availability and assumptions used across various policy frameworks.

A focus on Kenya's recently updated NDC reveals the estimated total financing need is approximately US\$40.2 billion, comprising US\$22.5 billion for mitigation and US\$17.7 billion for adaptation (including addressing loss and damage). While these figures provide a broad target, it is important to recognise that NDCs in many countries, including Kenya, tend to exhibit "low specificity".⁵ In this context, low specificity indicates the estimates are often generalised and lack detailed sectoral, sub-sectoral or technology-specific breakdowns. Such broad estimates make it difficult to accurately assess precise financial needs for particular mitigation or adaptation actions. For any financial institution, the absence of clear and reliable sectoral requirements impedes effective planning, resource mobilisation and allocation. Interestingly, despite the low specificity in financial estimates, Kenya does possess more detailed sector-specific data for most sectors. For example, the country's National Water and Sanitation Investment Plan⁶ identifies water-related needs at around US\$7.6 billion by 2030, with climate-resilient water supply central to this estimate. This specific figure exemplifies how targeted sectoral assessments exist alongside the broader, less detailed NDC estimates. However, because of co-ordination failures, these sectoral estimates are excluded.

Additionally, Kenya's climate finance needs have evolved in scale and focus across successive NDCs. However, this evolution has not been accompanied by transparent evidence of what has been mobilised or delivered. Across Kenya's three NDCs (2016, 2020 and 2025), the country has consistently articulated multi-billion-dollar climate finance needs initially estimated at US\$40 billion (2016), later revised upwards to US\$62 billion (2020) to include adaptation, and then adjusted to US\$40.2 billion (2025) with clearer

delineation between mitigation and adaptation, including loss and damage. While this progression shows increasing technical refinement and ambition, it does not provide evidence that earlier financial needs were met or that domestic or international flows have kept pace. Domestic contribution assumptions have grown from 0 per cent (2016) to 19 per cent (2025), yet over 80 per cent of total financing remains conditional on international support, a proportion that has remained largely static for nearly a decade. The decline in total estimated need between 2020 and 2025 cannot therefore be interpreted as reduced demand, but rather as a recalibration of scope in the absence of delivery data. This underscores a deeper challenge: Kenya's NDC updates tend to reflect shifting ambitions rather than measurable progress in climate finance mobilisation. The apparent reduction in total financing needs in the 2025 NDC does not necessarily signal progress in meeting earlier requirements but rather reflects a re-scoping of priorities without clear accounting of achieved flows.

1.2 The right enablers?

Ideally, the measure for effective climate finance in a country depends on the convergence of institutional strength and policy frameworks as well as coherence, political will and financial inclusion. Numerous reviews and analysis cite Kenya's institutional and policy frameworks as sophisticated, suggesting that Kenya has the optimal environment for climate-resilient and green development. But practically, is this the case?

Firstly, from the institutional point of view, robust institutions such as national treasuries, central banks and sectoral agencies provide the governance, oversight and co-ordination needed to align financial flows with climate priorities. Kenya has established a comprehensive framework for managing climate finance, primarily through the Climate Change Act of 2016, later amended in 2023⁷ to include carbon market regulations. This Act creates the National Climate Change Council (NCCC), chaired by the President, which oversees climate priorities and the Climate Change Funds (CCF) and functionally, ought to provide high-level guidance and co-ordination. However, the Climate Change Council has not convened since the Act was enacted in 2016. The Council is supposed to comprise of a maximum of nine members appointed by the President that include sector-specific Cabinet Secretaries, a chairperson of the council of county governors, a member of the private sector, a representative of civil society, a representative of the marginalised communities and a representative of academia. While the President submitted four names as nominees for the latter four positions, the nominees have been challenged in court and barred from being appointed pending the hearing of a petition challenging their recruitment process. In a petition upheld by the High Court, it was contended the nominations failed to meet the required legal threshold on transparency, competitiveness, merits and public participation. The absence of the Council creates gaps in the co-ordination of other key stakeholders identified in the Act.

Furthermore, the Act mandates the establishment of Climate Change Coordination Units (CCUs) within every sectoral ministry and county government to facilitate the systematic mainstreaming of climate considerations into planning and budgeting processes. However, implementation remains uneven. Only a limited number of sectors have operationalised CCUs, and where they exist, capacity and functionality vary. Ministries that have progressed include the Ministry of Agriculture, which developed the Kenya Climate Smart Agriculture Strategy 2017–2026; the Ministry of Transport, which compiles an annual Transport Sector Climate Change Report and has drafted a National Policy on e-Mobility; and the Climate Finance Unit within the National Treasury to build capacity and co-ordinate access to both international

and domestic funds. The Ministries of Transport, Agriculture and Treasury demonstrate the value that co-ordinated structures bring in aligning mandates, strengthening data systems and clarifying priority areas for investment.

At the operational level, the management of climate finance involves agencies under the National Treasury responsible for finance management and support, and the Climate Change Directorate under the Ministry of Environment and Forestry handling technical and policy requirements. These roles are complementary, offering opportunities for greater co-ordination and integration. County governments have also established County Climate Change Funds (CCCFs), though links with national systems remain underdeveloped. Overall, the institutional setup is multi-layered, involving national and county levels, with ongoing efforts to improve co-ordination, integration and capacity to fully tap into climate finance opportunities.⁸

Secondly, a clear and stable policy and regulatory framework ensure predictability for investors. In practice, it should establish incentives for green investments embedding climate risk within financial decision-making. Kenya has a plethora of green and climate-related policy frameworks including the following:

- Kenya's Updated Nationally Determined Contribution to the Paris Agreement 2031–2035 (NDC, 2025)
- Kenya Green Finance Taxonomy (CBK, 2025)
- Draft Climate Change (Carbon Registry) Regulations, 2025
- National Energy Policy 2025–2034 (Ministry of Energy & Petroleum, 2025)
- Carbon Market Regulations (2024)
- Climate Change (Amendment) Act (2023)
- Draft National Green Fiscal Incentives Policy Framework (National Treasury, 2023)
- National Climate Change Action Plan 2023–2027 (NCCAP, 2023)
- Kenya Energy Transition & Investment Plan ETIP (Ministry of Energy and Petroleum, 2023)
- Kenya's Long-Term Low-Emission Development Strategy (LT-LEDS, 2023)
- National Climate Change Action Plan 2018–2022 (NCCAP, 2022)
- Guidance on Climate-Related Risk Management (CBK, 2021)
- ESG Disclosures Guidance Manual (NSE, 2021)
- National Water Resource Strategy 2021–2025 (Ministry of Water, 2021)
- Kenya's Nationally Determined Contribution to the Paris Agreement (NDC, 2020)
- Policy Guidance Note on Green Bonds (CMA, 2019)
- Green Bond Market Issuers Guide (NSE, 2019)
- Kenya Climate Smart Agriculture Strategy 2017–2026 (Ministry of Agriculture, 2017)

- National Policy on Climate Finance (Kenya National Treasury, 2016)
- Green Economy Strategy and Implementation Plan (GESIP, 2016)
- Kenya's National Adaptation Plan 2015–2030 (2015)
- National Water Master Plan 2030 (Ministry of Water, 2014).

However, coherence between these arrangements is a concern. Arguably the predominant goal of these policy instruments is to provide a robust, secure environment for mobilising climate finance, but few of these mechanisms are reporting measurable achievements, resulting in strong policy intent but limited transparency on actual finance flows and implementation outcomes.

While Kenya has made commendable progress in establishing a comprehensive regulatory architecture to support climate finance, there is growing concern that policy proliferation without corresponding market alignment may be constraining rather than enabling green investment. A clear example is the Carbon Markets Regulations introduced under the 2023 amendments to the Climate Change Act. These regulations rightly seek to ensure environmental integrity and fair benefit-sharing, establishing a Designated National Authority (DNA) responsible for approving project concept notes, issuing letters of approval, maintaining recognised standards, and applying corresponding adjustments to prevent double counting. They further mandate that land-based carbon projects allocate at least 40 per cent of annual revenues to communities, while non-land-based projects must provide at least 25 per cent to communities and an additional 25 per cent to the Climate Change Fund. While these provisions strengthen equity and accountability, they may inadvertently undermine the commercial incentive necessary for investors and project developers to operate sustainably. The combination of high benefit-sharing thresholds, complex procedural requirements, and uncertainty around carbon rights, and measurement, reporting and verification (MRV) costs significantly erodes potential project margins.

Financial institutions interviewed noted that they have not yet had the opportunity to meaningfully test carbon-related lending or monetisation models, and the sudden introduction of prescriptive, compliance-heavy regulation has increased perceived risk rather than reduced it. For many private actors, the regulatory burden now outweighs the potential upside, making Kenya appear less attractive for carbon investment relative to other African markets with clearer commercial pathways and more investor-friendly rules. In other words, **regulation has advanced faster than the strategic positioning and market-building necessary to attract investment**. The absence of a clear national strategy for how carbon revenues should drive industrial transformation, stimulate green micro, small and medium enterprises (MSMEs) or de-risk adaptation investments further contributes to the view that the policy framework remains compliance-driven rather than commercial-enabling.

Thirdly, political will and aligned action is equally critical: it sets the tone for national ambition, mobilises public resources, and fosters confidence among domestic and international financiers. In Kenya, however, there tends to be a **disconnect between the rhetoric of green growth and the reality of policy choices** that underpin economic development. On one hand, government narratives strongly promote clean energy leadership, environmental stewardship and a just transition. On the other hand, key national policy frameworks including the **National Energy Policy (2025)** and the **Least Cost Power Development Plan (LCPDP)** continue to prioritise **the expansion of oil and coal exploration, development and utilisation** as instruments of energy security and industrialisation. These plans explicitly propose:

- continued oil and coal resource development for electricity generation and direct industrial use
- strengthening legal and regulatory frameworks for fossil infrastructure
- maintaining high reserve margins with contracted fossil fuel capacity
- substantial public and private investment into fossil-based generation assets.

These contradictory signals and unaligned actions create uncertainty for financiers and investors evaluating Kenya's long-term decarbonisation trajectory. Commercial banks tend to favour sectors where **policy alignment and revenue certainty** are strong. When government strategies continue to support fossil assets as commercially strategic and low-risk, banks rationally follow that signal directing capital towards **high-emitting, collateral-rich corporates** rather than adapting lending portfolios to serve green and climate-aligned enterprises. This policy duality '**green on paper, grey in practice**' therefore dampens the commercial incentives needed to drive climate lending at scale. It also raises concerns among international financiers who increasingly require alignment with climate objectives as a condition of concessional funds or blended-finance participation. Ultimately, without coherent policy frameworks and credible government direction on transition pathways, Kenya risks undermining its own climate finance mobilisation efforts and delaying the emergence of financial models that enable a just and inclusive transition.

Finally, even the most sophisticated frameworks will fall short if financial inclusion is weak. For climate finance to drive real resilience and equity, the majority, particularly vulnerable communities, smallholder farmers and MSMEs, must have access to financial instruments that enable them to adapt, invest and thrive within a changing climate. Kenya's progress on financial inclusion is impressive. The FinAccess surveys,⁹ conducted every two to three years by the Central Bank of Kenya in collaboration with the Kenya National Bureau of Statistics and Financial Sector Deepening (FSD) Kenya, provide valuable information on the country's financial inclusion journey and its dynamics. The 2024 survey reveals a record-high financial inclusion rate of 84.8 per cent of adults (84.1 per cent of women, 85.7 per cent of men). Credit uptake remains strong, with a steep rise in 'hustler fund' and 'buy-now-pay-later' credit, and 52.6 per cent of Kenyans now use mobile money daily, a jump from 23.6 per cent in 2021. The survey reveals that only 18.3 per cent of Kenyans are classed as financially healthy. Kenyans are better able to manage day to day and cope with shocks but find it harder to invest in the future. The growth in financial inclusion in Kenya is a critical enabler for climate finance because it establishes the foundational infrastructure, behavioural norms and access pathways that allow climate-related capital to reach the individuals and enterprises most affected by climate change.

Kenya's rapid expansion of financial inclusion through mobile money, SACCOs, agency banking, fintech innovation and widespread account ownership has created an extensive network of payment rails, credit channels, digital identities and local intermediaries that can distribute finance efficiently and transparently. This inclusion architecture reduces transaction costs, enhances creditworthiness through digital footprints, and strengthens risk-sharing mechanisms such as micro-insurance and community-based finance, all of which increase the bankability of climate-relevant sectors like agriculture, water, nature-based enterprises and off-grid energy. In short, Kenya's financial inclusion success transforms climate finance from a high-level resource mobilisation challenge into a practical delivery challenge that the country is uniquely positioned to address, making inclusion not only a social good but also a structural prerequisite for a just and scalable climate transition.

1.3 Achievements to date

Kenya's experience reveals the challenges surrounding climate finance mobilisation extend beyond the sheer scale of resources required. A significant and persistent obstacle lies in the opacity around fulfilment against stated obligations. During this assessment, it was a challenge to clearly determine how much climate finance has been delivered, to whom and with what impact. This highlights the magnitude of this accountability gap. For Kenya to advance towards a just and resilient transition, the critical policy question is how much of what has been promised has materialised, and do institutional mechanisms exist to track, validate and recalibrate financial pathways accordingly?

Efforts to improve transparency have led to several tracking mechanisms, predominantly driven by the National Treasury. Notably, the Climate Policy Initiative (CPI) framework for mapping climate finance flows is a comprehensive methodology that tracks expenditures and disbursements related to climate mitigation and adaptation. It provides a systematic approach to identify and analyse climate-related financial flows from domestic and international, public and private sources. The framework utilises data primarily from the Integrated Financial Management and Information System (IFMIS) of the government, which is complemented by secondary sources such as published reports and databases. The National Integrated Monitoring and Evaluation System (NIMES) and County Integrated Monitoring and Evaluation System (CIMES) are two institutional frameworks established to align tracking responsibilities and monitor climate finance activities across national (NIMES) and county (CIMES) governments. According to the ADA Consortium,¹⁰ between 2005 and 2015 the Government of Kenya committed approximately US\$438 million, while development partners committed around US\$2.29 billion towards climate-relevant programmes. This totals only US\$2.72 billion over a decade, which is dramatically lower than the multi-billion-dollar annual investments required to meet Kenya's NDC targets and broader resilience priorities. Of what has been mobilised, current climate finance flows are heavily concentrated in mitigation, with 79 per cent directed towards renewable energy, leaving adaptation and resilience significantly underfunded. The concentration of investment in renewable energy and other large-scale mitigation infrastructure appears closely linked to the dominance of international capital providers, whose investment mandates and risk appetites often favour large, infrastructure-based projects with clear revenue models and scalable deployment potential.

In parallel, the Central Bank recently launched the Kenya Green Finance Taxonomy (KGFT),¹¹ aiming to create a unified classification system for financial institutions to report climate-aligned lending. However, to date, no commercial banks are reporting in alignment with the taxonomy. This is likely to change in the 2025 financial reporting cycle, which will give a better picture of green and climate-related lending at a commercial level. Complementing the KGFT, the landscape analysis by KBA¹² provided a high-level view of the uptake by commercial financial institutions of sustainable disclosures and guidelines. Interestingly, 100 per cent of banks surveyed have adopted the Sustainable Finance Principles, 83 per cent of them are reporting on their climate risk exposure using the Task Force on Climate-related Financial Disclosures (TCFD) aligned templates, and 73 per cent are implementing the CBK Climate Risk Guidelines. Overall, while there is widespread uptake of green and climate-related disclosures and guidelines, these institutional commitments have not translated into proportional lending outcomes.

Green-labelled lending remains a small share of total bank portfolios, and definitions of 'green lending' vary widely. For instance, a review of top Kenyan banks revealed contrasting levels as well as inconsistent

green labelling, making it difficult to accurately compare performance. For example, as of 2025, the following were reported as the green percentage of total lending:¹³

- KCB reported 15.5% (KCB Sustainability Report, 2025)
- Absa Bank reported 19% (Absa Integrated Report, 2025)
- Equity reported 3.1% (Equity Sustainability Report, 2025)
- Standard Chartered reported 2.2% (Standard Chartered Sustainability Report, 2025)
- NCBA reported 0.03% (NCBA Integrated Report, 2025)
- Stanbic reported 0.16% (Stanbic Sustainability Report, 2025).

But again, it is important to remember these figures are not clearly comparable, nor standardised. In some cases, figures represent aggregated sustainability-linked lending rather than purely climate-aligned allocations, making inter-bank comparisons unreliable. Additionally, several banks disclose their green lending only as cumulative portfolio totals rather than annualised figures, making it difficult to assess the year-on-year scale, growth and effectiveness of climate-aligned financing. The absence of standardised reporting despite the existence of the taxonomy means that Kenya has limited empirical understanding of how private capital is flowing into climate priorities, particularly adaptation.

Taken together, these findings demonstrate that Kenya's progress cannot be assessed solely in terms of frameworks and commitments. If Kenya does not have reliable systems in place to track and report how climate finance is being delivered, planning will continue to be based on what is expected rather than what is received. Building the country's capacity to measure and verify these flows, particularly from private financial institutions, is therefore critical. Without this, it becomes difficult to hold financiers accountable, direct investment where it is most needed, or make a credible case in international climate negotiations.

1.4 The persistent financing gap

Across various instruments and policy choices, Kenya has made its climate ambitions clear. To date, what can be verifiably tracked towards meeting these ambitions is US\$2.7 billion in combined domestic and international climate finance. Based on the limited information available, there is a financing gap of at least US\$37.6 billion, though likely higher. This gap has persisted across successive planning cycles and has been repeatedly highlighted in national reports, international assessments, and at every COP as part of a wider developing countries narrative on unmet climate finance commitments. This persistence is puzzling, given Kenya's comparative strengths including institutional and policy readiness, demonstrable political commitment and remarkable progress in financial inclusion, which has expanded access to multiple channels. Against this backdrop, the discourse on climate finance mobilisation in Kenya frequently invokes the need for an innovative financial model which, in essence, is a mechanism that can unlock capital at scale, reduce the cost of financing, and accelerate investment into adaptation and resilience priorities. Yet this concept remains largely elusive. It is often referenced in policy documents, donor strategies and public statements, but rarely defined with precision or grounded in Kenya's financial realities. What, in concrete terms, constitutes an innovative model for Kenya? And why has it proven so difficult to materialise, despite repeated calls across successive NDC cycles and at every COP?

To interrogate these questions, this paper advances the argument that beyond the structural challenges outlined earlier regarding institutional readiness, policy coherence and political will, Kenya's climate finance debate is also shaped by a series of misaligned or untested assumptions. These assumptions distort expectations and misdirect interventions, ultimately impeding effective mobilisation.

Fundamentally, these assumptions persist because discourse tends to leave out the perspectives of the real mobilisers and deployers of climate capital: financial institutions. Commercial banks, SACCOs, microfinance institutions (MFIs) and insurers who sit at the centre of Kenya's financial system hold essential insights into the practical barriers to green lending, including the realities of climate-related risk pricing, the constraints of balance-sheet management, and the gaps between donor expectations and market behaviour. Without grounding climate finance strategies in the lived experience of these institutions, Kenya risks designing models that are mismatched to its market as well as misaligned with its financial system. Which ultimately, makes current climate finance strategies ineffective in closing the persistent financing gap. These assumptions are discussed at length to provide the archetype for an innovative climate finance framework.

1.5 Misconceptions about risk and the true cost of capital¹⁴

Risk perceptions, both real and constructed, play a central role in shaping the cost of capital in Kenya and, by extension, the country's capacity to mobilise climate finance at scale. Across the African continent, sovereign and market risks are often priced higher than fundamentals warrant, and Kenya is no exception. These elevated risk perceptions increase the cost of financing and, consequently, suppress the pace of low carbon economic transformation. Empirical modelling in the literature¹⁵ demonstrates that higher weighted average cost of capital (WACC) in developing economies results in significantly lower deployment of renewable energy assets. When region-specific WACC values are applied, Africa generates approximately 35 per cent less renewable electricity under a cost-optimal 2°C pathway compared to scenarios assuming a uniform lower global WACC. The paper argues that reducing WACC earlier, specifically by 2050, would allow Africa to reach net-zero emissions almost a decade sooner, underscoring how improvements in financing conditions directly accelerate climate mitigation outcomes.

Discussions with financial institutions (FIs) across the banking, SACCO and microfinance sectors reveal the direct transmission of these perceptions into lending terms, balance-sheet behaviour and the viability of climate-related investments. This subsection examines three key dimensions – sovereign risk premiums, currency volatility and information asymmetry – to illuminate how risk perceptions materially inflate financing costs and create structural barriers to both mitigation and adaptation finance.

Sovereign risk premiums and the high base cost of borrowing: Kenya's sovereign risk profile significantly influences the cost of funds for domestic financial institutions. Repeated credit downgrades, elevated debt burdens and global investor caution have resulted in high sovereign yields, which directly shape the benchmark rates against which domestic borrowing is priced. Borrowing in Africa is also significantly higher than any other region, including Latin America and Asia. Every financial institution interviewed for this research indicated that their cost of external borrowing is no less than 7 per cent, a floor that applies even before sectoral risk, project risk or climate risk considerations are added. In some cases, institutions reported borrowing costs exceeding this threshold, depending on tenor, lender and market conditions. In addition, regional bundling of risks leads to mispricing risks.¹⁶

Green or climate-labelled capital does not escape this pricing structure despite its concessional branding. A review of term sheets from ten different institutions, including development finance institutions and commercial lenders, revealed interest rates for green and sustainable lending in Kenya range from **7.45 per cent to 10.2 per cent**, excluding additional fees and charges. Resultantly, financial institutions struggle to offer competitively priced climate loans, while meeting the higher administrative costs of burdensome reporting requirements associated with green lending. Furthermore, financial institutions (FIs) face constraints in extending credit at affordable rates for adaptation investments that yield long-term or non-monetised benefits. Because lending costs are ultimately tethered to Kenya's sovereign risk profile, even capital labelled as 'green' or 'sustainable' remains inherently expensive irrespective of underlying project quality or climate impact.

Currency volatility and the burden of dollar-denominated debt: Currency volatility further amplifies the perceived and actual risk of lending into climate-related sectors. All financial institutions consulted noted their borrowing is predominantly denominated in US dollars, which exposes both lenders and borrowers to significant foreign-exchange (FX) risk. Periods of shilling depreciation increase repayment burdens, destabilise cash-flow assumptions and heighten concerns about debt-service capacity. For sectors central to Kenya's climate agenda including agriculture, water, nature-based enterprises and off-grid energy, revenues are typically in local currency, meaning borrowers face inherent mismatches between loan currency and repayment currency. This structural exposure leads FIs to demand higher interest margins, shorten tenors or entirely avoid sectors perceived as vulnerable to FX shocks. The result is an investment environment where even well-designed adaptation or resilience projects struggle to secure affordable financing because currency risk is priced as a structural premium.

Information gaps and persistent mistrust of local data: A less visible but equally consequential driver of high financing costs is the information asymmetry and mistrust of local data that shapes investor behaviour. Despite the existence of credible climate, agricultural, financial and demographic datasets in Kenya, FIs consistently reported that domestic financial institutions (DFIs) and global investors often re-assess, re-validate or duplicate local data rather than rely on national systems. One commercial bank highlighted the challenge of data granularity within DFI analysis. In this case, Kenyan climate finance data was criticised for being too aggregated and drawn from country-level figures rather than local or sub-national sources. Yet, when local datasets were presented as an alternative, these were dismissed on the grounds they could not be independently verified. This practice reflects a deeper perception problem whereby African data is frequently treated as unreliable unless externally verified. Financial institutions noted project proposals, risk assessments and sector analyses are often subjected to parallel reviews, extending timelines and increasing transaction costs. Which ultimately result in a higher cost of capital. Moreover, the reluctance to rely on local data results in conservative, highly standardised risk models that fail to reflect Kenya's institutional strengths, financial inclusion architecture or climate policy maturity. These information gaps create a cycle in which climate finance remains expensive because the risk models that determine pricing do not accurately represent Kenya's real risk environment. In addition, limited data utilisation reinforces perceptions of opacity and risk, keeping the cost of capital high and suppressing investment flows.

To address these systemic challenges, African governments and the African Union have moved to establish the Africa Credit Rating Agency (AfCRA). AfCRA is designed to provide independent, region-specific credit assessments that better reflect Africa's socio-economic realities, reduce over-reliance on global credit rating firms, and challenge persistent biases that inflate perceived risk. By shifting the

informational foundation upon which credit decisions are made, AfCRA aims to materially improve financing conditions across the continent. For Kenya, this could mean lower sovereign spreads, reduced FX-adjusted borrowing costs, and more competitive capital pricing across renewable energy, water, nature-based solutions and climate-smart agriculture sectors.

1.6 The myth of an innovation-driven financial system

Although Kenya is frequently cited as a global example of financial innovation, closer examination suggests that much of this innovation lies in the application and scale of digital delivery channels rather than in the development of fundamentally new financial products or risk-taking practices. Over the past decade, digital transformation through mobile money, agency banking networks, automated service channels and app-based micro-credit platforms has significantly expanded financial access and improved the convenience and affordability of financial services. Platforms such as M-PESA, M-Shwari, Timiza and other mobile-based savings and lending products have enabled millions of low-income households to enter the formal financial system, contributing to Kenya's reputation as a leader in financial inclusion. In this sense, Kenya's experience demonstrates the powerful role that digital financial infrastructure can play in extending financial services at scale. However, this widespread digitalisation should not be conflated with innovation in financial risk-taking. While banks have been highly effective in leveraging digital technologies to modernise service delivery and expand customer reach, they remain comparatively conservative in their risk appetite, particularly when it comes to financing novel or unproven business models. The result is a financial system that is highly inclusive in terms of access and distribution, but still cautious in its approach to capital allocation.

Findings from the **Central Bank of Kenya's 2024 Banking Sector Innovation Survey** reinforce this insight. The proportion of banks with a **dedicated function to spearhead innovation fell sharply, from 87 per cent in 2023 to 65 per cent in 2024**, indicating a retrenchment in strategic commitment to innovation. At the same time, the survey highlights that the **primary focus of innovation** across the sector continues to be on modernising banking platforms, enhancing customer experience through digital channels and improving operational efficiency through technology-driven solutions. These priorities, while important, do not translate into the type of **risk innovation** required to fund climate-aligned, nature-based or resilience-focused investments, which tend to be novel in the market and driven by start-ups. These enterprises typically lack established credit histories and do not possess sufficient collateral to meet conventional lending requirements. Insights from commercial lenders suggest that innovation efforts remain largely focused on enhancing digital delivery channels and operational efficiency, as opposed to developing novel lending models or engaging in sectoral experimentation that would expand climate-aligned portfolios.

The gap between digital innovation and risk innovation is further illustrated by the strong reception of **risk guarantees** among financial institutions. Across all interviews conducted, banks consistently reported that **guarantees are among the most effective and valued mechanisms** for unlocking lending to sectors and projects that would otherwise fall outside their credit risk appetite. This is supported by studies¹⁷ suggesting that larger and more effective credit guarantee facilities have the potential to mobilise 6–25 times more financing than loans. Guarantees, whether partial credit guarantees, first-loss facilities or blended-finance risk-sharing mechanisms, enable banks to finance clients without traditional collateral and extend credit to sectors perceived as volatile, such as agriculture or off-grid energy. Guarantees have also allowed them to pilot new green or climate-related products and manage exposure while meeting

broader sustainability mandates. In one case, an FI reported its approval to finance a major green business was *entirely dependent* on the presence of a DFI-backed risk guarantee. Without this, the loan had in the past consistently failed internal credit thresholds. This highlights that even where strong commercial demand exists, transactions remain highly sensitive to risk coverage rather than being driven by climate opportunity itself. Guarantees compensate for the risk conservatism built into Kenya's financial system and provide a bridge between digital sophistication and credit-risk constraints.

Yet, while guarantees are widely regarded as catalytic instruments for unlocking lending to higher-risk investments, there remains limited systematic transparency regarding the extent to which such instruments are directly mobilising incremental climate finance in practice. In particular, there is insufficient standardised tracking of climate finance volumes attributable to guarantee-backed transactions, and limited public data on the additionality of these instruments. There is also weak visibility into whether guarantee-supported financing is effectively reaching intended beneficiaries, especially adaptation-focused projects, underserved communities and smaller-scale local actors. This constrains the ability of policymakers and practitioners to assess the true developmental and climate impact of guarantee mechanisms beyond headline deployment figures.

Yes, guarantees are essential enablers within Kenya's risk-averse financial ecosystem, but their strategic potential remains under-measured and under-leveraged. Scaling climate finance in Kenya requires more than digital innovation. It actively requires us to rethink how risk is assessed and how creditworthiness is determined, developing financial products that reflect the realities of climate investment. Tools like guarantees will continue to play an important role in making these investments more attractive to lenders, but they are not enough on their own. The deeper challenge lies in shifting the risk aversion baked into how banks are governed, what regulators expect and how capital requirements are structured. Without addressing these foundations, the barriers to climate finance will persist regardless of how many new instruments are introduced.

1.7 The belief that external capital is a prerequisite for domestic climate lending

A widely held assumption within Kenya's climate finance ecosystem is that financial institutions require external or concessional capital before they can meaningfully expand their lending to green sectors. While concessional funds and blended-finance instruments certainly play a role in risk mitigation, discussions with FIs suggest the primary constraint is not liquidity, but rather the availability of suitable incentives. **Kenyan banks are not short of capital; they are short of commercially viable reasons to deploy that capital into climate-relevant sectors.** Climate lending is therefore not yet business-led as commercial banks lack a compelling risk-return proposition aligned to their internal credit models and balance-sheet realities. Kenyan banks, like most commercial lenders globally, are driven by balance-sheet optimisation and prudential considerations. Lending decisions are shaped by their capital adequacy requirements, provisioning and IFRS 9 rules, sectoral exposure limits and Non-Performing Loan (NPL) management.

Based on these considerations, collateralised lending to large corporates remains the most attractive business line. Critically, many of these corporates are concentrated in 'dirtier' sectors, particularly oil and gas, heavy manufacturing, cement and resource-intensive industries. These sectors tend to possess physical collateral, predictable cash flows, strong credit histories and long-standing banking relationships.

As a result, banks continue to prioritise lending to high-emitting sectors because they fit established credit-risk models. Conversely, climate-aligned sectors including renewable energy start-ups, off-grid solar companies, regenerative agriculture firms, circular-economy SMEs and adaptation-related businesses lack the collateral base and financial track record required to qualify under traditional lending criteria. This structural bias means that the dirtiest sectors receive the cheapest capital, while the green economy struggles to secure even modest, appropriately priced lending.

Additionally, a critical yet underappreciated finding across financial institution interviews is the absence of a clear customer value proposition for green lending. While financial institutions are meeting the reporting and guideline requirements as directed by the Central Bank, they are yet to clearly define what constitutes a 'green' customer segment. Further, they are doubtful as to what green products or services look like in practice and how green loans should differ in pricing, tenor, collateral or repayment structure from conventional loans. Without a compelling value proposition, climate lending appears to be a compliance-driven exercise, rather than a strategic business opportunity. Numerous relationship managers who are typically responsible for origination expressed confusion about green qualifying criteria, the data requirements associated with climate-aligned lending and how to communicate green offerings to clients. The growing demand to meet taxonomy criteria has effectively resulted in strained client relationships and repeated data requests that frustrate borrowers.

Furthermore, a critical operational gap emerges around who inside the bank is truly responsible, incentivised and mandated for driving climate-aligned lending. While the Central Bank of Kenya and associations such as the Kenya Bankers Association have invested significantly in capacity-building for relationship managers, it remains unclear whether these commercial frontline staff are expected and sufficiently equipped to become green finance experts. Relationship managers are traditionally incentivised around sales, client retention and risk-adjusted profitability. Layering highly technical environmental data collection and climate-risk analysis onto this role risks creating both functional overload and a dilution of commercial priorities. In contrast, sustainability or environmental managers, where they exist, typically hold the technical expertise to interpret taxonomies, assess climate risk and align lending with ESG commitments. However, they often operate outside core business decision-making, with limited authority over credit approvals or portfolio strategy. Bernad et al.¹⁸ argue that banks with dedicated environmental management functions reporting into executive leadership are more likely to enforce environmental screening in loan origination and to demonstrate measurable shifts in lending behaviour towards greener sectors. While most Kenyan banks now have environmental, social and governance (ESG) or sustainability governance structures in place including policies, committees and disclosure practices, these arrangements remain **loosely connected to core business operations**. Green and climate-related responsibilities are often positioned within sustainability teams that lack direct influence over lending strategy, portfolio targets or commercial key performance indicators (KPIs). As a result, ESG governance exists **in parallel** to credit decision-making rather than shaping it. This incomplete institutionalisation creates ambiguity over **who is accountable for originating and scaling green finance**, limiting the translation of high-level climate commitments into business-led lending activities and measurable portfolio shifts.

Crucially, none of the banks reviewed during this research reported having climate-lending targets or scorecards, climate-adjusted credit-risk models, dedicated green-finance units, sector-specific climate strategies, or performance indicators tied to growth in climate-aligned portfolios. In the absence of such structures and incentives, climate lending remains peripheral, shaped more by external incentives such as

DFI guarantees and reputational ESG commitments than by internal strategic intent. These findings suggest that strengthening climate finance delivery in Kenya will require much clearer internal alignment and role demarcation within financial institutions. Sustainability teams currently provide technical expertise and lead compliance with regulatory expectations, yet they are insufficiently empowered to influence lending strategy or shape commercial objectives. Relationship managers, on the other hand, remain primarily focused on traditional credit priorities and client acquisition, and while they are increasingly targeted for green-finance training, they are neither incentivised nor equipped to originate climate-aligned lending at scale. The result is a structural disconnect. Climate and ESG responsibilities are positioned in governance frameworks and disclosure documents, but they do not translate into operational changes in how lending decisions are made or how portfolios are managed.

1.8 The idea that disclosure-led regulation alone will shift lending behaviour

A persistent assumption within Kenya's climate finance architecture is that regulatory action, particularly disclosure requirements, supervisory guidance and reporting frameworks will, on its own, catalyse a significant reallocation of capital towards green and climate-aligned investments. While regulation is undeniably crucial for establishing transparency, managing systemic risk and aligning financial sector behaviour with national climate goals, evidence from Kenya and global literature indicates that regulation alone is insufficient to drive the scale of transformation required. The gap between what regulation is designed to achieve and what it actually delivers in practice underscores the need to rethink the role of central banks and financial regulators in enabling climate finance.

Much of Kenya's regulatory progress has centred on guidelines and disclosure frameworks, including the Central Bank of Kenya's (CBK) Guidance on Climate-Related Risk Management and the Kenya Green Finance Taxonomy. These tools are important foundational steps, yet their impact has been limited by the fact that they do not directly alter banks' lending incentives or risk appetites. Findings from financial institutions indicate that banks are currently inundated with meeting data and reporting requirements, efforts that increase compliance burdens but do little to change the economic calculus of lending to climate-relevant sectors. Furthermore, while the CBK collects substantial climate-risk information, there is no transparent, aggregated sector-level feedback loop, leaving banks uncertain about the quality, accuracy and comparative performance of their own disclosures. This creates a regulatory environment that increases obligations but does not generate actionable intelligence or meaningful incentives for climate lending.

Global evidence reinforces the limitations of disclosure-focused regulation. According to Steuer and Tröger,¹⁹ disclosure regimes, though valuable for increasing transparency, face structural constraints. These include difficulties in assessing firm-level climate risks, agency conflicts, information asymmetries, inconsistent data quality and the lack of enforcement mechanisms. These frameworks rarely correct market failures, particularly the failure to internalise the social cost of carbon, and cannot substitute for more direct instruments such as carbon pricing or targeted credit policies. Their effectiveness is further limited by behavioural and political biases that slow adoption or result in superficial compliance. Similarly, Dikau and Volz²⁰ show that while many central banks globally have begun integrating climate considerations into macro-prudential frameworks, the degree of integration is uneven and constrained by institutional mandates. Only 12 per cent of central banks worldwide have explicit sustainability mandates,

while approximately 40 per cent are indirectly required to support government sustainability objectives. Many have joined initiatives such as the Network for Greening the Financial System (NGFS), yet the adoption of tools that actively shift capital allocation remains partial and experimental. The integration of climate risks into stress testing, collateral frameworks and prudential metrics remains an evolving, rather than mature, practice. In parallel, González²¹ highlights the growing trend of central banks greening their own portfolios, such as the Bank of Finland's sustainability bond strategy and the Eurosystem's adoption of socially responsible investing (SRI) criteria demonstrating that central banks can exert influence through asset management and portfolio signalling. However, these measures impact central bank portfolios more directly than commercial lending behaviour, meaning their catalytic effect on domestic credit markets remains modest unless paired with broader systemic interventions.

So, what should the Central Bank of Kenya be focused on, beyond guidelines and disclosure? To unlock climate finance at scale, Kenya must shift from a regulatory posture focused primarily on disclosure compliance to one in which the Central Bank actively reshapes risk-adjusted returns in favour of climate-aligned investments. Evidence from emerging market practice and the United Nations Conference on Trade and Development (UNCTAD) (2023) highlights a suite of tools central banks can deploy to influence market behaviour more directly. These include greening the collateral framework, whereby green assets or climate-aligned lending receive preferential collateral eligibility in monetary operations, thereby reducing funding costs for banks originating such assets. Similarly, greening foreign-reserve management can send strong portfolio-level signals and support liquidity in sustainable asset classes.

The Central Bank can also establish targeted refinancing windows or green-lending quotas, providing discount-rate liquidity for adaptation and resilience sectors that are currently priced out of the market. In parallel, climate-adjusted macro financial frameworks integrating physical and transition risks into inflation, interest-rate and credit-growth models enable more precise supervisory interventions.

Finally, climate-central banking tools such as preferential risk weights, capital relief for green exposures, mandatory stress tests and participation in guarantee structures can directly lower the perceived and regulatory cost of lending to climate-vulnerable sectors. Importantly, Kenya's recent shift to the Kenya Shilling Overnight Interbank Average (KESONIA) as the reference rate for risk-based pricing provides an opportunity to embed climate considerations directly into credit pricing models. If calibrated to reward lending into green and resilience segments with favourable pricing add-ons or reduced capital charges, KESONIA could become a powerful instrument to align commercial risk appetite with national transition goals. A proactive central banking stance combining pricing reform, liquidity facilities, supervisory expectations, collateral incentives and government fiscal incentives would meaningfully accelerate the flow of climate finance and for the government to drive green business and projects, moving the sector from observing climate risks to catalysing climate investment in line with Kenya's just-transition ambitions.

1.9 Overstated expectations of carbon revenues as a scalable financing solution

Carbon markets have been widely discussed as a potential source of large-scale climate finance for Kenya, with narratives often suggesting that carbon revenues could offset adaptation costs, incentivise conservation or stimulate green investment. However, findings from the financial sector paint a more cautious and pragmatic picture. Across all financial institutions consulted, the consistent message was that

commercial banks have not yet had the opportunity to understand, test or meaningfully participate in carbon markets. Prior to the passage of Kenya's Carbon Markets Regulations (2023), the market was fragmented, developer-led and largely disconnected from formal financial actors. Banks reported that they had:

- limited access to reliable project-level MRV data
- uncertainty around additionality and project quality
- no clarity on creditworthiness of carbon developers
- lack of risk models for carbon revenue streams
- absence of regulatory guidance on how carbon assets can be valued or collateralised.

Thus, banks were effectively unable to build product offerings, risk assessments or financing structures linked to carbon revenues. While the Carbon Markets Regulations (2023) have introduced welcome clarity and governance standards for Kenya's emerging carbon market, financial institutions expressed concern that both the timing and substance of the regulations have inadvertently discouraged commercial participation. Banks emphasised that they were not meaningfully engaged during the regulatory design phase and therefore view the new rules as imposing compliance obligations without articulating a commercially viable pathway or clear incentives for lending into carbon value chains. They cited the sequencing as particularly problematic. Specifically, regulation preceding market participation has meant that the rules arrived before banks had developed internal expertise, piloted carbon-linked products or established risk-management frameworks for carbon revenue streams. Without transitional mechanisms such as sandboxes or phased compliance, carbon markets are therefore perceived as complex, compliance-heavy and commercially uncertain.

Crucially, carbon revenues are not yet bankable under existing credit models. For any revenue stream to support commercial lending, it must be predictable, contractually certain, measurable, verifiable and enforceable. Carbon markets in Kenya currently fall short on several of these dimensions. They exhibit price volatility, buyer concentration, long verification and monitoring cycles, and a reliance on additionality and permanence assessments that most lenders are not familiar with. Moreover, community benefit-sharing rules, while socially essential, reduce certainty over net revenue available to borrowers. Land tenure constraints, counterparty risks and early-stage governance systems further heighten uncertainty. Given these conditions, financial institutions cannot treat carbon revenues as collateral, nor reliably integrate them into cash flow-based lending decisions.

The implication is that carbon finance will not automatically mobilise commercial capital in Kenya, despite its long-term potential. Banks' current stance reflects not a rejection of carbon markets, but a rational response to market immaturity and regulatory sequencing. A future pathway to productive participation will require development of internal capacities, project-level MRV support, policy clarity on carbon rights and risk-sharing mechanisms that stabilise revenue expectations. Only with these enablers in place will carbon markets transition from a promising possibility to a concrete driver of green lending within domestic financial systems.

1.10 Expanding gas infrastructure will enable a just energy transition

Discussions with financial institutions revealed substantial ambiguity regarding the role of natural gas in Kenya's energy transition, creating mixed signals for market actors and investors. One commercial bank noted that clients have sought green financing for liquefied petroleum gas (LPG) and liquefied natural gas (LNG) projects, yet the institution remains uncertain about appropriate classification within broader national commitments. For the same bank, their DFI financing arrangements explicitly exclude LNG and LPG from green eligibility, but at the same time the Kenya Green Finance Taxonomy (KGFT) designates these fuels as qualifying green asset classes. This regulatory and strategic inconsistency reflects a broader lack of clarity on the place of transitional fuels within Kenya's decarbonisation pathway, ultimately complicating investment decisions and constraining capital deployment.

On the one hand, while global discourse, including South Africa's, increasingly questions the role of natural gas as a viable 'transition fuel',²² Kenya's context diverges in several fundamental ways. Unlike countries that must shift large fossil-based power systems, Kenya's electricity mix is already predominantly renewable, with geothermal, wind, hydro and solar comprising over 80 per cent of installed capacity. Gas in Kenya is therefore not proposed as a means of reducing coal dependency at scale, but rather for targeted purposes related to energy security and access. This contextual distinction alters the nature of the transition debate. Kenya's transition challenges lie elsewhere, specifically in achieving universal electrification, decentralising clean energy to enable adaptation and inclusive growth, strengthening transmission and distribution resilience, and ensuring industrial competitiveness in a decarbonising global economy. Regardless, gas does not uniquely solve these challenges. In many cases, integrated renewable energy systems coupled with storage, flexible mini-grids and digital optimisation are better aligned with Kenya's green-growth priorities.

Nonetheless, there remains an economic and system-balancing rationale for limited-scope utilisation of LNG and LPG, which raises a strategic dilemma. The misalignment between Kenya's strategic framing of gas and investor-side eligibility constraints further compounds uncertainty. DFIs increasingly exclude 'bridge fuels' such as LNG and LPG from use-of-proceeds frameworks, while most green-labelled financing instruments either prohibit or significantly restrict the financing of gas-related infrastructure. This disconnect creates contradictory signals for financiers and project developers, undermining bankability and delaying investment decisions in a sector that already operates within shifting policy narratives. If Kenya intends to pursue gas as part of its industrialisation pathway, then there needs to be clarity around who will finance it, under what criteria, and with what safeguards against lock-in.

1.11 Misalignment between demand-side climate needs and supply-side finance models

A prevailing assumption in global and national climate finance discourse is that mitigation should remain the dominant focus of financial mobilisation, on the basis that reducing emissions delivers measurable climate outcomes and attracts scalable investment. In Kenya, however, this assumption is increasingly misaligned with context. As previously noted, the country's power grid is already among the greenest globally with over 80 per cent renewable electricity generation, and the marginal gains from additional

mitigation finance are comparatively limited. Furthermore, the pipeline of climate needs identified as most urgent and costly in Kenya's NDC are overwhelmingly adaptation-oriented, affecting agriculture, water systems, health and community resilience. Despite this, capital continues to flow overwhelmingly towards mitigation. The main reason is that these projects are easier to structure and generate somewhat predictable financial returns. Mitigation projects such as renewable energy, energy efficiency, green buildings or clean transport also lean more towards traditional banking models. They often generate predictable, monetisable cash flows, involve corporate or project finance structures familiar to banks, rely on tangible assets that can be collateralised, align with established sectoral expertise within banks and benefit from existing regulatory incentives or procurement frameworks.

Adaptation projects on the other hand are rooted in informality, where most vulnerable households and micro-enterprises operate without formal collateral, registered cash flows or credit histories. Their financial behaviours are characterised by small ticket sizes, short-term liquidity needs and sensitivity to price shocks.²³ As such, they fall outside the risk profiles that traditional commercial lending frameworks are designed to accommodate. As a result, traditional financial institutions struggle to originate and underwrite adaptation loans at scale, despite rising physical climate risks and the centrality of these communities to national resilience. Additionally, adaptation needs are geographically dispersed. The needs are concentrated in rural counties and urban peripheries which, as interview insights confirmed, are precisely the regions where commercial banks are least active in lending, despite these areas being the frontlines of climate vulnerability and resilience needs. These areas tend to be associated with high transaction costs from complicated due-diligence processes.

Furthermore, unlike renewable energy investments with clear revenue streams, adaptation interventions generate **social and developmental returns**, such as food security, reduced drought vulnerability and improved health. The problem is that these benefits, though real, are not monetised and as such, never appear on a balance sheet. Anything that does not show up on the balance sheet cannot be captured in the risk-return calculations that financial institutions rely on to make lending decisions. Some good examples of this include climate-resilient seeds, water harvesting systems, or community early-warning mechanisms that improve resilience but do not generate discrete revenue lines or monetisable assets, making them incompatible with traditional credit assessment models. Soil carbon is another striking example of this gap. Its potential to transform landscapes at scale is significant, yet it remains one of the most underfinanced areas of climate action in Kenya. Part of the problem is structural as soil health improvements do not generate the kind of predictable cash flows that lenders need to service debt. Carbon revenues offer some promise, but they are currently too uncertain, too administratively complex and too slow to materialise to serve as reliable loan collateral. The result is that Kenya risks walking past one of its greatest opportunities for adaptation finance. Not because the opportunity is not there, but because the financing architecture was built for a different kind of project. One that is centralised, asset-heavy and easy to price. Soil carbon does not fit that mould, and until the system adapts, it will continue to be left out. Consequently, many bankers interviewed questioned whether commercial financial institutions are structurally equipped, or even appropriate, to finance adaptation at scale, noting that reliance on concessional loans or guarantees does not change the fundamentals of their risk frameworks. As long as climate finance mechanisms remain anchored in commercial bank lending models, designed for formal, centralised, monetised activities, capital will continue to flow towards mitigation projects that are easier to price and collateralise. However, Kenya's transformational opportunity lies in supporting the resilience of its most climate-exposed communities and informal enterprises.

2. A country investment platform as a catalyst for transformational leadership

A key learning during this research is that even when there is relative success in mobilising climate funds, disbursement is a major bottleneck in Kenya and across the Global South. A lack of co-ordination and context-specific, evidence-based interventions emerge as the main challenges to successful mobilisation and deployment of climate finance across the country. Challenges which require transformational leadership to overcome. In a paper on country investment platforms by CISL,²⁴ transformational leadership is defined as a “dynamic social process within a specific place which maximised the contributions of others towards the achievement of a meaningful purpose”. Therefore, Kenya requires such transformational leadership and an innovative country investment platform to deliver impactful and inclusive green finance to the people and projects of Kenya. This paper recommends a country platform to address the structural inconsistencies, and create the necessary incentives and market conditions to drive real, system and long-term change in climate finance.

A strong case for country platforms as the vehicle for transformational leadership in climate finance is made. Country platforms are a **sovereign, government-led entity that brings together government, development partners, the private sector and other stakeholders to co-ordinate and align development efforts around shared priorities**. They can act as a catalyst for transformational leadership by providing a centralised, sovereign-led entity that drives strategic co-ordination, stakeholder engagement and policy coherence to achieve sustainable development goals. The platform's leadership, especially when headed by high-level political figures such as the head of state, signals a strong commitment to change and sets the tone for a co-ordinated whole-of-government and whole-of-society transformation effort.

Despite strong policy ambitions, high financial inclusion and a predominantly renewable power system, the disconnect between climate finance needed, mobilised and ultimately disbursed, persists. What is clear from this study is that financial institutions, and specifically commercial lenders, remain under-equipped and under-incentivised to drive climate investment, especially adaptation finance, without clear strategic direction, co-ordination and de-risking support from the state. A **country investment platform** represents the mechanism capable of delivering the transformational leadership currently lacking. Crucially, such a platform would transcend short-term political cycles by establishing a **permanent institutional locus** for strategic planning (and prioritisation), financing and monitoring Kenya's transition.

International experience provides some valuable lessons. South Africa's Presidential Climate Commission and Indonesia's Just Energy Transition Partnership (JETP) show that platforms were at the centre of government-built credibility, facilitated negotiation with global financiers and oversaw implementation continuity. Lesotho's quasi-sovereign co-ordinating vehicles demonstrate how platforms can attract multilateral development banks (MDBs) while maintaining state backing – an interesting example also, because the private sector, and especially the banking sector including Standard Chartered bank, played an unusually prominent role during its formative phase. It directly resolved investment bottlenecks and strengthened investor confidence while maintaining proximity to government priorities. Brazil's National Development Bank (BNDES) illustrates the efficiency gains when a specialised institution is tasked with operational management. In **India**, digital public infrastructure platforms show the power of embedding

strategic capabilities within specialist institutions. It provides continuity, scale and a long-term perspective that remains resilient despite political change, an important lesson for climate finance governance.

Meanwhile, Ghana's and Zambia's debt restructuring platforms illustrate how co-ordinated platforms can build trust and facilitate consensus among government ministries and creditors during debt restructuring negotiations. These processes emphasise the utility of structured, government-led platforms in navigating complex financial environments and restoring fiscal sustainability, conditions that are foundational to climate finance mobilisation. Senegal has recently applied a similar approach, following the example of South Africa. They have initiated a national platform aimed at mobilising climate finance and investments into low carbon projects, contributing to increased financial flows aligned with national climate goals.

Across all these examples, **political authority paired with technocratic capability** emerges as the defining marker of success. By unifying diverse actors around a shared investment strategy, they translate climate ambition into investable pathways, accelerate project preparation and de-risking, and build institutional capacity suited to long-term transition planning. This provides a powerful template for Kenya as it seeks to close the persistent climate-finance gap and drive a just and resilient transition.

2.1 Kenya's readiness for a country investment platform: some early considerations

During research, we observed Kenya's strong climate policy environment, financial inclusion achievements, and how it has demonstrated leadership in green investment across the region. However, the country **does not yet possess a nationally mandated platform** with the authority, architecture and institutional permanence to mobilise climate finance at scale. Existing institutions, including the Climate Change Directorate, sectoral ministries and regulatory bodies, each carry partial mandates but lack a unified co-ordination mechanism to align investment priorities, engage international financiers coherently, and translate climate ambition into bankable, sequenced pipelines.

Thus, the persistent demand for an 'innovative finance model to unlock capital at scale' remains **ill-defined, abstract and underdeveloped**. This raises a fundamental question: *Can Kenya meaningfully articulate an innovative finance model when it does not yet have a climate finance blueprint capable of operationalising its NDCs?* Without a coherent blueprint, one that delineates roles, financing pathways, regulatory levers, risk-sharing structures and sectoral priorities, innovation becomes an aspirational slogan rather than a strategic tool.

Thinking through this, what could a country investment platform for Kenya look like conceptually? Bearing in mind that a national platform for Kenya must be approached with careful intention, co-created and co-designed, it should be operationalised through a blueprint that is firmly rooted in the country's unique institutional strengths, financial market dynamics and socio-economic realities, rather than imported from external models that assume conditions that Kenya does not yet possess. This paper argues that three critical levers should guide such a blueprint. First, Kenya's globally recognised success in scaling financial inclusion demonstrates an ability to mobilise innovation, digital infrastructure and community-level financial networks for unparalleled reach; the lessons from that trajectory must be intentionally translated into climate-finance delivery.

Second, Kenyan financial institutions themselves have clearly articulated the practical barriers that currently impede climate-aligned lending, from high capital costs and collateral constraints to limited internal capabilities and weak adaptation business cases. Any platform must therefore respond directly to these structural needs and create incentives for banks to become active mobilisers of climate capital.

Third, CISL's readiness framework²⁵ comprising 17 diagnostic questions related to political leadership, institutional architecture, investment models and stakeholder alignment, offers a rigorous lens to assess Kenya's preparedness and define the enabling features of a credible platform. By integrating these three levers, Kenya can move towards a platform model that is not only technically robust and investable but also context-appropriate and capable of delivering a just, locally grounded climate transition.

2.2 Lessons from Kenya's financial inclusion success

The confluence of financial inclusion and climate finance lies in their shared objective of enabling vulnerable households and enterprises to access the capital, tools and services needed to build resilience. This enables the most vulnerable to participate in low carbon economic opportunities and equitably benefit from a just transition. Kenya's global reputation as a leader in financial inclusion offers a valuable analogue for understanding how climate finance can be scaled effectively, equitably and sustainably. Over two decades, Kenya built one of the world's most inclusive financial ecosystems, driven by digital innovation, community-based financial institutions, enabling regulation and public-private collaboration. This experience provides critical insights for accelerating climate finance flows, particularly given that Kenya's successive NDCs continue to articulate rising climate financing needs without evidence of commensurate mobilisation or delivery.

Infrastructure precedes scale: We need to build foundational infrastructure before scaling green and climate-related products. A defining feature of Kenya's financial inclusion trajectory was the early establishment of digital and institutional infrastructure, such as mobile money platforms, extensive agent networks, interoperable payment systems and tiered Know Your Customer (KYC) protocols. Digital infrastructure lowered the cost of Kenyan financial transactions, enabling micro-payments, real-time transfers and transparent record-keeping. This was the impetus for subsequent product innovation at scale. Climate finance faces a similar inflection point, though Kenya has not clearly defined what that infrastructure must comprise. One urgent gap lies in **data management and shared climate intelligence**. Today, climate risks, adaptation needs and green investment opportunities are fragmented across ministries, counties, DFIs and private sector actors. Without interoperable data systems, unified project registries and tools for co-ordinated decision-making, banks cannot accurately price risk, regulators cannot track flows and investors cannot identify viable pipelines. **Robust, interoperable data infrastructure** could therefore become one of the most important national investments, reducing **information asymmetries and accelerating pipeline development**.

Local intermediaries as essential mobilisers of capital: Financial inclusion expanded rapidly in Kenya because it relied on trusted local intermediaries, including SACCOs, MFIs, co-operatives and community savings groups, who understood local cash flows, cultural dynamics and risk profiles. These intermediaries reduced information asymmetry, enhanced trust and enabled rapid uptake of new financial products. Climate finance similarly depends on local financial institutions to mobilise and channel capital to households, smallholder farmers, MSMEs and vulnerable groups. Banks, SACCOs and co-operatives are better positioned to aggregate small projects, assess localised risks and structure blended-finance facilities

suiting to last-mile contexts. The current climate finance architecture, often dominated by external actors, large institutions or project developers, has yet to fully leverage this intermediary layer. Further, climate finance currently over-emphasises mobilisation (headline commitments and international pledges) while neglecting distribution pathways. Yet adaptation and resilience investments require reliable last-mile delivery systems, ranging from digital wallets for carbon payments to climate-smart agriculture financing channels. Without strong distribution systems, climate finance will remain concentrated among large firms and urban actors, failing to reach those most exposed to climate impacts.

Informality is not a barrier but rather, a design condition: With 70–80 per cent of Kenyan livelihoods situated in the informal sector, financial inclusion scaled by designing for, rather than excluding, informality. Innovations such as pay-as-you-go (PAYGO) models, group guarantees, microloan structures and flexible repayment schedules were instrumental in expanding financial access. Moreover, inclusion literally creates demand, which in turn creates the market. The expansion of financial inclusion in Kenya unlocked entirely new markets including mobile credit, micro-insurance, digital payments and PAYGO systems, by creating demand through usability and accessibility. Climate finance can similarly achieve scale by adapting to the realities of informal, climate-vulnerable economies. This includes micro-insurance for climate risk, PAYGO solar irrigation, micro-credit for climate-smart inputs and community-level adaptation funds. When smallholder farmers see higher yields from climate-smart inputs, or when households lower energy costs through PAYGO solar solutions, demand becomes organic and markets deepen. The scaling of climate finance therefore requires designing interventions that generate economic and social value for end-users, not merely meeting mitigation targets. Climate finance instruments that align with local livelihood structures are more likely to achieve broad uptake.

Public–private collaboration as the engine of scale: Kenya's financial inclusion ecosystem thrived on sustained collaboration among government, private sector actors, development partners and financial institutions. Firms such as Safaricom built technological rails; the Central Bank of Kenya (CBK) provided regulatory space; banks integrated digital financial services; and development partners de-risked early innovation. Climate finance must replicate this model by aligning government policy priorities with private sector investment capabilities and development partner risk-sharing instruments. A siloed or donor-driven approach will continue to yield fragmentation, while co-ordinated national platforms integrating multiple actors around common objectives could significantly expand climate-relevant investment flows.

2.3 Insights from domestic financial institutions

The perspectives gathered from Kenya's leading FIs reveal foundational misalignments between the design of the current climate finance architecture and the realities of financial intermediation in Kenya. These insights are central to determining whether a national platform can succeed as a catalyst for transformational leadership in climate finance.

Adaptation finance is the litmus test of innovation in Kenya's climate finance landscape. While mitigation finance remains commercially intuitive, supported by clear revenue streams and established financing structures, adaptation needs are geographically diffuse, informally organised and characterised by non-monetised benefits. Interviews confirmed that commercial banks are not actively lending in the very regions and sectors where climate impacts are most severe, underscoring the structural exclusion of vulnerable populations from current financing pathways. As long as climate finance is primarily channelled through commercial banks using traditional credit logic, capital will continue to flow towards mitigation, ie,

‘what is easy’, rather than adaptation, ‘what is necessary’. If Kenya’s finance platform structurally prioritises mitigation alone, it will reproduce the failures of its predecessors. By contrast, if the platform is designed around adaptation as the catalytic frontier of innovation, Kenya can align climate finance with its most urgent developmental priorities including food security, rural livelihoods, resilience of informal economies and equitable participation in the transition. In this case, there is a strong catalytic opportunity around soil carbon. If the platform positions soil carbon as a core resilience investment, it can further economy-wide benefits. Ultimately, the ability to finance adaptation at scale will determine whether Kenya can deliver a truly just transition. If adaptation remains commercially invisible, Kenya risks deepening climate vulnerability even as it expands green infrastructure, financing progress that is visible but not resilient.

National climate finance platforms must actively reduce distorted risk pricing. Financial institutions are constrained not by liquidity but by distortions in sovereign and currency risk pricing, which elevate the cost of capital and suppress the bankability of adaptation sectors. The mistrust of African and Kenyan data systems forces DFIs to duplicate analyses, raises transaction costs and inflates risk premiums without empirical justification. These informational asymmetries filter through to borrower pricing, disproportionately affecting climate-vulnerable sectors. Integration of AfCRA-aligned data methodologies within a Kenyan national platform could reduce sovereign spreads and FX-adjusted borrowing costs, improve the credibility and valuation of local data used in climate-risk pricing, and enhance the attractiveness of agriculture, water and nature-based sectors for lenders. By embedding this within the platform architecture, Kenya would directly address a core driver of expensive climate finance: perceived rather than actual risk.

Guarantees are critical for re-aligning lending incentives. Risk guarantees emerged as the most valued instrument for unlocking climate lending. Guarantees lower provisioning, reduce capital charges and shift internal risk-return incentives, functions essential for adaptation finance. However, Kenya does not yet have a systematic, scaled mechanism linking guarantees to measurable climate finance deployment. A national platform must institutionalise this function, tracking climate finance flows that are contingent on de-risking instruments and co-ordinating guarantee pipelines to maximise impact and avoid fragmentation.

Carbon revenues cannot yet anchor credit markets. Despite strong policy signalling, banks expressed hesitancy towards carbon markets. Regulation has preceded participation: institutions were not meaningfully consulted during regulatory formation and now face compliance demands without clarity on commercial models. They also lack transitional or sandbox mechanisms to pilot carbon-linked lending. Price volatility, MRV uncertainty and lengthy revenue cycles prevent carbon credits from being recognised as reliable collateral or cash flow. Carbon finance remains a future enabler, not a current mobiliser, and platform architecture must therefore sequence carbon market integration with investment in MRV capability, risk-sharing and standardised contracting.

The Role of the Central Bank. For a national platform to successfully mobilise and scale climate-aligned investment in Kenya, the Central Bank must move beyond its current emphasis on disclosure and guidelines to adopt a **proactive market-shaping role**. International evidence shows that central banks in low- and middle-income countries that strengthen institutional capacity in climate-risk assessment, deploy **climate-responsive monetary and prudential tools**, and embed climate considerations into collateral and refinancing frameworks are better able to shift financial flows towards sustainable sectors.

In Kenya, this would require the Central Bank to: (i) build robust analytical systems and supervisory methodologies to evaluate climate risks and integrate them into risk-based pricing models such as **KESONIA**; (ii) green the collateral framework and explore targeted green lending facilities that lower banks' cost of funds for adaptation and resilience sectors; (iii) co-ordinate closely with fiscal authorities, development banks and private institutions to align regulatory incentives with national transition priorities; and (iv) drive improvements in climate-finance transparency through national data systems that enhance investor confidence and reduce pricing distortions. By deploying these tools within a national platform, the Central Bank becomes not merely a regulator of climate-related risk, but **an active enabler of risk-adjusted returns**, crowding in private capital at scale and supporting a just, resilient transition grounded in Kenya's financial realities.

2.4 Country platform readiness criteria

The Kenya Bankers Association is currently developing a Sustainable Finance Framework that builds on its 2024 landscape analysis, outlining the state of sustainable finance in Kenya. The framework also proposes a strategic roadmap organised around four pillars: ESG integration, climate risk management, financing sustainability and emerging issues. While this marks an important step in structuring the financial sector's contribution to climate action, it raises a critical question: **Are sector-led frameworks sufficient vehicles for the level of co-ordination, coherence and system-wide transformation that a national platform demands?**

CISL's analysis²⁶ underscores that effective platforms require more than technical guidelines; they require high-level political leadership, sovereign ownership and integrated institutional architecture. To be viable, a Kenyan national platform must therefore be anchored in strong political commitment, ideally from the presidency or the Ministry of Finance, to generate policy stability, investor confidence and cross-cycle continuity. It must be supported by an enabling legal and institutional framework with clear mandates and governance arrangements that delineate political and technical functions, ensure accountability and embed operations within core state institutions. Capacity-building and local ownership are essential: international expertise may be catalytic, but must transition into strong domestic capability, embedded in ministries, regulators and financial intermediaries. The platform must also operate through a long-term strategy aligned with national development plans, NDCs and sectoral priorities, sequenced to deliver structural transformation rather than fragmented projects. Navigating Kenya's political economy, through statutory institutionalisation, stakeholder coalitions and alignment with medium-term expenditure frameworks will be critical for resilience across political cycles.

Finally, because a platform is ultimately an investment co-ordination mechanism, it must ensure coherence between policy reform and capital mobilisation, supported by transparent, inclusive stakeholder engagement and structured processes that link public objectives with private finance. Only by meeting these requirements can Kenya establish a platform capable of mobilising climate finance at scale, directing it towards national priorities, and delivering a genuinely just and resilient transition.

3. Conclusion

Kenya stands at a consequential juncture in its climate and development trajectory, possessing many of the foundational conditions to lead a transformative, just transition in Africa. Yet the analysis in this paper reveals a persistent and widening gap between climate ambition and actual climate finance mobilisation and deployment. This gap is not simply a matter of insufficient capital entering the system; it is the result of deeper structural and institutional misalignments that prevent capital from flowing to where it is most needed. Insights from Kenya's financial institutions demonstrate that climate finance remains peripheral to banking strategy, constrained by sovereign risk pricing, currency volatility, regulatory compliance burdens, unclear commercial incentives and an innovation ecosystem that prioritises technology over risk transformation.

The current climate finance architecture continues to finance what is visible, formal and collateralised, while adaptation finance remains commercially invisible, geographically diffuse and institutionally excluded from mainstream credit channels. Carbon revenues, once seen as a promising solution, remain too volatile and untested to serve as bankable cash flows under existing credit models. At the same time, rhetorical inconsistencies in national climate and energy strategy, such as the ambiguity around LNG/LPG as 'transition fuels', undermine investor confidence and muddy investment signals.

These findings underscore that Kenya's greatest climate finance challenge is one of institutional design, rather than political aspiration. A country investment platform, anchored in strong presidential leadership, embedded within core economic ministries and co-governed with private financial institutions, emerges as a necessary structural mechanism to translate Kenya's just transition commitments into investable pipelines and scalable financial instruments. Such a platform must prioritise risk-reduction models aligned to Kenya's financial market realities, development of climate-adjusted credit methodologies, targeted liquidity and guarantee facilities for adaptation sectors, and co-ordinated market access strategies that enable local lenders to become central mobilisers and deployers of climate capital.

Ultimately, adaptation is the litmus test of whether Kenya can deliver a just transition. Success will depend on whether the country can build a financial architecture that channels capital to its most climate-exposed citizens, those without collateral, formal income or access to traditional banking networks. Kenya's experience with financial inclusion proves that transformational financing systems can be built when infrastructure, incentives and innovation are intentionally aligned. If the same ambition and coherence are applied to climate finance, through a national platform, Kenya can shift from incremental progress to systemic transformation. This paper therefore advances the argument that Kenya's climate transition requires a re-imagining of innovative finance, not as fragmented pilot instruments or donor-driven experiments but as a coherent, nationally co-ordinated platform that mobilises domestic financial institutions as the primary engines of climate investment.

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