



Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN)

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CLIMATE CHANGE FINANCING IN KENYA

Policy Recommendations

In order to bridge the climate financing gap that currently exists in Kenya, the Government of Kenya should consider the following :

1. Incentivize County Governments to integrate Climate Financing into their budgeting processes.
2. Prioritize CSA activities in the Agricultural Sector Working Group in the future Annual Budgets.
3. Initiate and up-scale Public-Private Partnerships (PPP) in CSA.
4. Initiate bilateral negotiations and agreements with various development partners.
5. Increase the absorptive capacity of climate finance by various agencies
6. Use additional fiscal tools to incentivize investments in Climate Finance

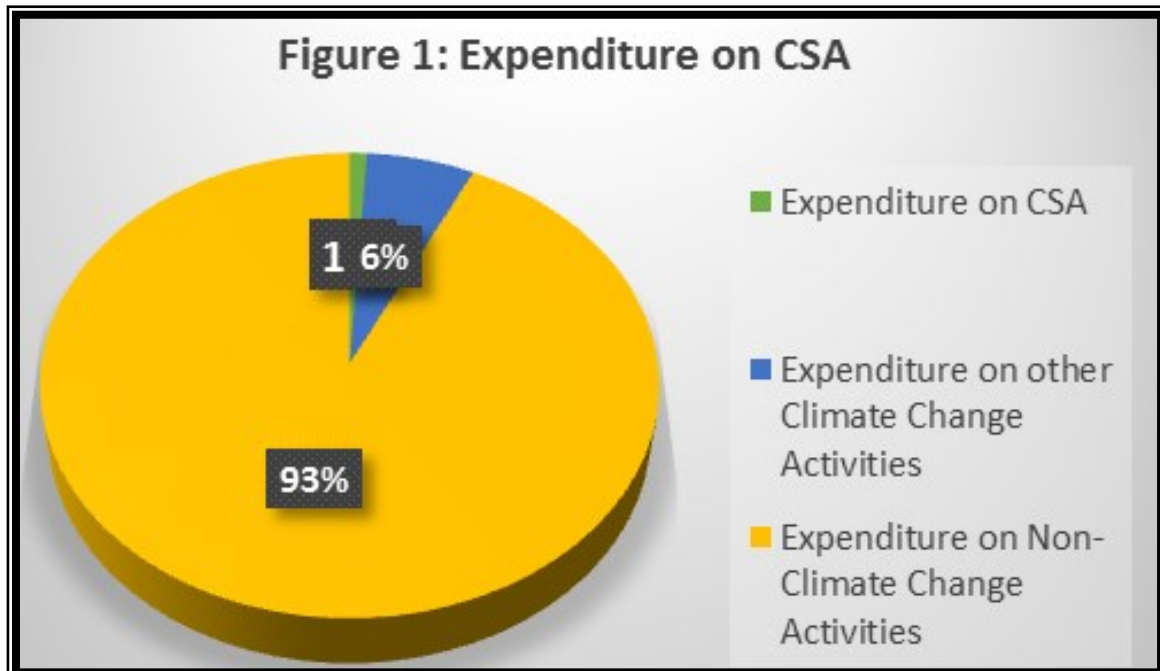
Climate Change (CC) is a big threat to sustainable development of Kenya (NCCAP, 2013). As such, the Government of Kenya (GoK) has taken various measures to ensure that the country transits into a Low Carbon Resilient Development (LCRD). These includes; the ratification of the UNFCCC in 1994 followed by the signing of the Kyoto Protocol in 2005. The GoK prepared the National Climate Change Response Strategy (NCCRS) in 2010 followed by a National Climate Change Action Plan (NCCAP) in 2013 to operationalize the strategy. The Climate Change Bill-2014 has gone through all the stages in the National Assembly and the Senate and is now waiting for the presidential assent. The GoK drafted and submitted an Indented Nationally Determined Contributions (INDC) to the UNFCCC portal on 24 July 2015. Climate change activities are being implemented in line with the NCCRS and the NCCAP. The NCCAP is very ambitious in that \$2.75 billion are required each year to implement the plan.



Kenya's Climate Finance Landscape

To date, Kenya has relied on various sources of climate finance, including international public and private sources, domestic public and private sources and carbon finance. Kenya's international climate finance landscape is very fragmented and has resulted in high transaction costs. Public sources of international finance come from bilateral development partners and multilateral agencies. The main multilateral institutions supporting climate change activities in Kenya are the World Bank and the African Development Bank. Kenya's major bilateral financial partners include the United Kingdom's Department for International Development, French Agency for Development, Danish International Development Agency, German International Development Agency, Japan International Cooperation Agency, Swedish International Development Cooperation Agency, and the German Development Bank.

An analysis of Development Expenditure Budget Estimates revealed that the government had cumulatively invested over Ksh 32 billion (USD 323 Million), on Climate Smart Agriculture (CSA) over the period 2012 – 2015, implying that the GoK was able to spend only 1% of her Average Annual Budget on CSA as shown by figure1 below.



By August 2015, various Climate Change Funds including the Scaling-up Renewable Energy Programme (SREP), the Special Climate Change Fund, the Global Environment Facility Trust Fund, the Forest Carbon Partnership Facility Readiness Fund, and the Adaptation Fund (AF) among others had disbursed resources to climate change projects in Kenya. The Adaptation Fund for example, approved a USD 10 million proposal from the National Environment Management Authority (NEMA), in 2014 and disbursed the first tranche of USD 4.9 million to Kenya. NEMA is Kenya's National Implementing Entity (NIE) for the Adaptation Fund.

The country is active in the carbon markets, hosting several innovative projects through the CDM and the voluntary carbon market. While the Clean Development Mechanism (CDM) has played an important role in Kenya in encouraging private sector investment, evidence suggests this market holds very little promise to generate climate finance from 2015 because of a decline in demand and uncertainty around a new international climate agreement.

Domestic sources of climate finance are funding approximately 35 government-run projects, valued at over US\$450 million. The Kenyan private sector is investing heavily in geothermal activity, biomass and small hydroelectric. The main channel of financing climate change actions has been the Medium-Term Expenditure Framework (MTEF) budget process at both the National and County Government level.

Analysis of the NCCAP reveals that the government should consider up scaling its funding not only to the agricultural sector but to other key sectors in order to achieve the proposals of the NCCAP. Preliminary findings of the Climate Budget Public Expenditure Review (CBPER) being conducted by the National Treasury (TNT) indicates that the GoK is spending close to \$ 1 billion a year on Climate Change activities in the country.

Over the last few years, the GoK has been implementing various CSA interventions that have managed to target over two million farmers (MoA, 2014). These interventions include *Njaa Marufuku Kenya (NMK)*, livestock breeding and laboratory services, water harvesting for food security and Traditional High Value Crops (THVC). However, only a small proportion of the national budget was allocated to CSA. Kenya is a party to the 2003 Maputo Declaration, which requires countries to spend at least 10% of their annual budgets on agricultural development. However, an analysis of the annual allocations for the period 2012 - 2015 revealed that the average annual allocation to the agricultural sector was 2.4%, a figure that is far below the Maputo Declaration. Further analysis revealed that only 0.8% of the annual budget was allocated to CSA. However, the GoK should consider increasing the absorption capacity of funds allocated to the agricultural sector. This is because the Kenya Climate Public Expenditure and Budget Review (CPEBR) reveals that the absorption capacity of both climate funds and non-climate funds allocated to the agricultural sector is very low.

Tools / Instruments to incentivize private sector investments

On the realization, that Kenya's demand for climate change finance outstrips its supply, the GoK has embarked on various measures to unlock private sector investments in the country. These include tax exemptions. For example, with effect from 2012, the importing, construction and selling of photovoltaic cells have been exempted from both duty and tax. The importation of renewable energy equipment has also been exempted from both duty and tax. Small-scale solar projects were given a tax holiday of 10 years.

To ensure that private sector investors minimize on their transaction costs, licensing of businesses in renewable energy has now been centralized under a one-stop shop under the Energy Regulatory Commission (ERC). The Government has come up with *E-services* whereby private sector investors can apply for business permits electronically.

The GoK introduced Feed-in Tariffs and the Power Purchase Agreements (PPAs) in 2008 and later revised them in 2010 to

County Adaptation Funds

The Kenyan Constitution (2010) established two levels of government; the National and forty seven (47) County Governments (CGs). Isiolo County developed the Isiolo County Adaptation Fund (ICAF) in 2012. ICAF was established with an initial capitalization from the United Kingdom's Department for International Development (DFID) and technical support of the International Institute for Environment & Development (IIED). The ICAF is a Climate Financing model that can be replicated in other counties .

cover more forms of renewable energy such as geothermal, solar, wind and biogas. The increased production of renewable energy has resulted in improvement of CSA technologies in Kenya, such as, the use of solar pumps to irrigate farms as opposed to the use of fuel pumps.

The GoK has continued to make use of Public-Private Dialogues (PPDs) to create awareness among private investors on issues such as available opportunities and licensing procedures .

Challenges and Opportunities

Table 1 below summarizes the challenges and the opportunities of Climate Change financing that exist in Kenya .

Challenge	Opportunity
In the past climate finances have been pulled together with other ministerial expenditures. This has resulted in serious challenges of tracking climate finance.	The National Treasury is in the process of developing a Climate Change Budget code (CCBC). The CCBC will help integrate and track climate-sensitive expenditure within the national budget. This will support effective financial management for LCRD investments.
Insufficient institutional arrangements, including unclear roles and responsibilities of different ministries	The Climate Change Bill of 2014 provides for the National Climate Change Council to coordinate CC activities
Lack of information on climate finance provided by non-government actors	The Climate Change Bill-2014 envisages that it will be mandatory for all non-governmental actors to report to the NCCC.
Lack of capacity to monitor different financial instruments	Given that it is the designated National Authority (NDA) for the Green Climate Fund (GCF), TNT should consider building the capacity of the staff in the Climate Financing Unit.
Lack of transparency and predictability on the part of development partners contributing to climate finance	The GCF and Adaptation Fund (in full) are expected to solve challenges related with the fragmentation of the multiplicity of external climate finance.
Different administrative requirements by each development partner.	From 2015 onwards, the GCF and AF are expected to be the main international Public Climate Finance
Low absorption rates of CC finance arising from a range of factors such as fund flow challenges on the part of the National Treasury and line ministries and capacity constraints.	The NCCF shall manage and disburse funds more quickly and efficiently.
Poor access of climate finance from Financial Institutions (FIs) by Small and Medium Term Enterprises (SMEs). FIs prefer projects that are short-term in nature and with high yields/profit margins. CC projects on the other hand are long-term in nature and have low yields. To that end, FIs often demand huge collateral from the SMEs.	The GoK should consider offering guarantees to the SMEs.

Recommendations

It is recommended that the Government of Kenya consider taking the following steps to bridge the gap between demand and supply of climate finance and thus reach sustainable development via a green pathway by 2030 .

1. Develop expertise, capacity and know how, to target efforts to access Climate Finance. There are a number of emerging climate funds including the GCF and the AF (in full). The National Treasury and Ministry of Environment and Natural Resources are the Designated National Authorities (DNAs) for the GCF and AF respectively whereas NEMA is the National Implementing Entity (NIE) for the AF. The GoK should consider building the capacity of the staff working in the DNAs and the NIEs to be able to unlock more climate finance.
2. Incentivize County Governments to integrate Climate Financing into their County Integrated Development Plans (CIDPs) and budgeting processes. The promulgation of the Kenya Constitution, 2010 led to the devolving of sectors such as the agricultural sector, which is highly vulnerable to climate change. The National Government should create the enabling environment for the CGs to mainstream Climate Financing into their CIDPs.
3. Previous National Budgets have given little attention to CSA. This calls for the National Government to prioritize CSA activities in the Agricultural Sector Working Group in the future annual budgets.
4. Initiate and up-scale Public-Private Partnerships (PPPs) in CSA to unlock private sector investments.
5. Initiate bilateral negotiations and agreements with various development partners.
6. The GoK should consider developing strategies to improve the absorption capacity of Climate Finance by the various government agencies. This will increase the effectiveness of climate finance.
7. Although the GoK has been using fiscal tools and subsidies such as the provision of fertilizer to farmers at a subsidized cost, there is need of making use of additional fiscal incentives such as tax waivers towards CSA .

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About FANRPAN

The Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN) is an autonomous regional stakeholder driven policy research, analysis and implementation network that was formally established by Ministers of Agriculture from Eastern and Southern Africa in 1997. FANRPAN was borne out of the need for comprehensive policies and strategies required to resuscitate agriculture. FANRPAN is mandated to work in all African countries and currently has activities in 17 countries namely Angola, Benin, Botswana, Democratic Republic of Congo, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

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