

# Kenya Green Finance Taxonomy

April 2025



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# Foreword

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

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

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

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

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

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

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<sup>1</sup> African Union (2023) The African Leaders Nairobi Declaration on Climate Change and Call to Action. Available at: [https://www.afdb.org/sites/default/files/2023/09/08/the\\_african\\_leaders\\_nairobi\\_declaration\\_on\\_climate\\_change-rev-eng.pdf](https://www.afdb.org/sites/default/files/2023/09/08/the_african_leaders_nairobi_declaration_on_climate_change-rev-eng.pdf)

<sup>2</sup> Institute for Global Environmental Strategies (2021) Kenya's Updated Nationally Determined Contribution (NDC) and JCM Activities. Available at: [https://www.iges.or.jp/sites/default/files/inline-files/8\\_Ressa\\_Kombi\\_Kenya%27s\\_updatd\\_nationally.pdf](https://www.iges.or.jp/sites/default/files/inline-files/8_Ressa_Kombi_Kenya%27s_updatd_nationally.pdf).

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

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

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

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

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

# Acknowledgements

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

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

Ten Kenyan commercial banks, consisting of a transect of sizes and compositions, took part in a piloting exercise as a test for useability. These banks offered time and insights which were valuable in shaping the taxonomy.

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

## List of Acronyms and Abbreviations

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

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

## Glossary of Terms

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

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

## Change Log

Based on an extensive public consultation process after which the draft KGFT first edition was published for comment, the final version of the KGFT first edition was adapted and finalised. The draft KGFT was published by the CBK on their official website on 12<sup>th</sup> April and the window for public comments was open until 11<sup>th</sup> June. During this consultation period, CBK hosted capacity building and plenary sessions with the Kenyan banking sector and other financial sector regulators to stimulate discussion regarding the published draft. All written commentary was logged and considered and applied where relevant to the final KGFT first edition.

The Table below illustrates the changes made to this version of the document:

Section of KGFT	Changes applied
KGFT document and appendices	General formatting improvements and editing of writing.



Parts A and B	Increased specificity in the benefits and intended use of the KGFT, as well as use of available best-practice guidance material to enhance explanations.
Part B	Inclusion of a navigation table to allow for ease of use.
Section 6	Enhanced challenges and proposed solutions based on piloting process, including the addition of a materiality assessment piece.
All appendices	<ul style="list-style-type: none"> <li>- Update formatting to table style for increased usability.</li> <li>- Reviewed and updated references to legislation.</li> </ul>
Appendix 1 and 5	Inclusion of DNSH criteria where it previously stated TBC.
Appendix 4	Inclusion of technical screening criteria for agricultural activities.
Appendix 11	Inclusion of trade related technical screening criteria. Activities prioritised for inclusion as per feedback by the banking sector.

# Executive Summary

Kenya is among the most vulnerable countries in the world to the impact of climate change<sup>3</sup>. The climate-sensitive nature of many of Kenya's most important sectors, including agriculture, water, energy, and tourism, mean the economic costs of climate change are significant: Kenya could lose up to 7.25% of economic output by 2050 if it does not take strong action to adapt to climate change and mitigate its effects<sup>4</sup>.

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

A green finance taxonomy (hereafter, taxonomy) is a classification system that provided clarity on how a minimum set of activities can be eligible to be defined as "climate-aligned" and under which circumstances, in line with international best practices and national priorities. It can be used by investors, issuers, and other financial sector participants to measure, track, monitor, and demonstrate the degree of sustainability of their activities and the credentials of their climate-aligned activities transparently and efficiently. It can also be considered as a financial climate transition tool as it helps investors, issuers, and other financial sector participants to plan and report on the transition, by setting the objectives and the direction of travel for a minimum set of activities.

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

- Help distinguishing between real and financial assets with high and low-greenhouse gas emissions to drive capital allocation, evaluate investment strategies and manage climate-related risks.
- Act as a fundamental building block of a robust climate information architecture.
- Help the financial sector with clarity and certainty in selecting green investments in line with international best practice and Kenya's national policies and priorities through the standardisation of requirements.
- Support regulators, banks and financial institutions manage climate-related risks by tracking the exposure to taxonomy-aligned and non-taxonomy aligned companies, projects, and assets. As a result, the taxonomy may support the reduction in financial sector risks through enhanced management of environmental performance.
- Reduce the costs associated with labelling and issuing green financial instruments.
- Unlock significant investment opportunities for Kenya in a broad range of green and climate-friendly assets.
- Support regulatory and supervisory oversight of the financial sector by providing a basis or reference for green financial products.
- Strengthening of accountability and market transparency, often linked to avoid greenwashing practices

This first edition of the Kenyan Green Finance Taxonomy (KGFT) has been developed with the aim of realising the above benefits for the Kenyan financial sector in pursuit of the national sustainable ambitions. The technical assistance operation is financed under the International Climate Initiative Fund (the "IKI Fund"), established with funding from the German Federal Ministry of Economic Affairs and

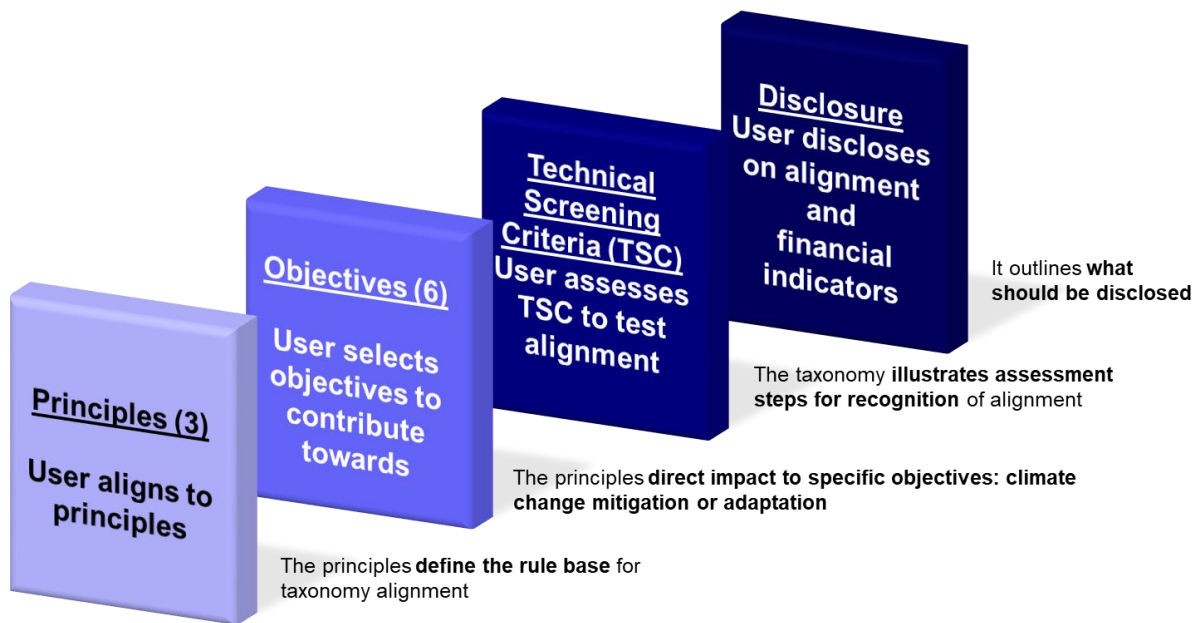
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<sup>3</sup> World Bank (2021) Climate Risk Country Profile: Kenya, World Bank Group, Washington DC. Available: [15724-WB\\_Kenya\\_Country\\_Profile-WEB.pdf \(worldbank.org\)](#)

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

Climate Action (“BMWK”). The IKI Fund is a Fund established between the EIB and the BMWK to catalyse investments dedicated towards mitigating greenhouse gas emissions and adapting to the effects of climate change in the developing countries and emerging economies.

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



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

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

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

# Document Purpose and Navigation

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

The document is comprised of the following parts:

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

## PART A - ABOUT THE KENYAN GREEN FINANCE TAXONOMY

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

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

Kenya, through its National Treasury, is a member of the International Platform on Sustainable Finance, through which the Common Ground Taxonomy was developed to facilitate comparability and interoperability of taxonomies and sustainability-related disclosure. Kenya's involvement and exposure to international trends in sustainable finance and disclosure allowed for a strengthened understanding of the role of taxonomies in the financial sector.

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

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

# 1. Introduction

## 1.1. The climate crisis and the Kenyan context

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

This has compelled Kenya to take action and become a leader in addressing climate change: it was one of the first countries in Africa to enact a comprehensive law and policy to guide national and subnational climate action<sup>5</sup>, the Climate Change (Amendment) Bill, 2023. Kenya contributes less than 0.1 percent of global greenhouse gas (GHG) emissions annually but submitted an updated, more ambitious Nationally Determined Contribution (NDC) on December 24, 2020, with a commitment to reduce emissions by 32 percent by 2030 relative to the business-as-usual scenario in line with its sustainable development agenda and in honour of the Paris Agreement.<sup>6</sup> The Kenya Vision 2030 provides an overarching long-term national development blueprint which requires a focus on low-carbon sustainable development and the country's adaptive capacity<sup>7</sup>. To put this document into action and meet NDC targets, Kenya has launched implementation plans in the form of the Long-Term Low Emission Development Strategy 2022-2050, and the aligned National Climate Change Action Plan 2023-2027 (the third iteration of the five-year action plan).

The achievement of Kenya's sustainable development ambitions and NDC commitments requires substantive strategic efforts in climate mitigation and adaptation enabled by a well-planned transition process to a green economy, as well as adequate financing from both public and private sectors. Kenya's National Policy on Climate Finance establishes the legal, institutional and reporting frameworks to access and manage climate finance and highlights the key steps the financial sector could take to overcome potential challenges<sup>8</sup>. It is one of the financial sector's strategic priorities to attract climate finance and promote climate investment, as well as establish a robust framework to maximise climate finance mobilisation. The KGFT can be used as a tool to meet these aims.

The Central Bank of Kenya (CBK), as the monetary authority of Kenya, is well-placed to support the sustainable and green economy agenda and catalyse sustainable and transition financing needs for Kenya and other East African countries. The CBK has worked to contribute to the sustainable development agenda in providing the banking sector with Guidance on Climate-Related Risk Management to reduce the market friction in understanding and disclosing climate-related risks and opportunities<sup>9</sup>. The KGFT project was developed as an extension to the CBK's contribution to national climate action. It is a

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

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

<sup>7</sup> Kenya Vision 2030. Available at [Kenya Vision 2030 | Kenya Vision 2030](#)

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

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

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

## 1.2. Objective of the Kenyan Green Finance Taxonomy

A green taxonomy is a classification system that identifies and categorises which investment options are environmentally sustainable and, by extension, those that are not. It defines a minimum set of assets, projects, activities, and sectors that are eligible to be defined as "green" in line with international best practice and national priorities. It can be used by investors, issuers, and other financial sector participants to track, monitor, and demonstrate the credentials of their green activities in a more confident and efficient way. Taxonomies should be locally relevant, reflecting national decarbonisation pathways and climate commitments, yet internationally comparable and interoperable to promote the flow of sustainable finance to the country.

This first edition of the KGFT has been developed initially for the banking sector as an entry point into the financial sector. Based on stakeholder consultation and inputs from the Taxonomy Working Group (TWG), the KGFT's scope is intended to be expanded for the wider financial sector in subsequent editions.

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

## 1.3. Governance

The TWG comprising the CBK, EIB, the Carbon Trust, and DAI, was established in December 2023 to support the development of the KGFT. The composition of the TWG will evolve over time depending on strategic partnerships, with the CBK maintain the chair position.

The TWG is mandated to uphold the governance mechanism for the advancement and refinement of the taxonomy. The KGFT first edition provides a framework for environmental objectives and TSC, which requires advancement over time. The TWG is to ensure that there is a formal governance structure in place to allow for fulfillment and refinement.

The CBK, as the custodian of the KGFT, is responsible for the upkeep and execution of the KGFT governance strategy. The KGFT is seen as a living document that aims to evolve over time. The CBK is tasked with ensuring that the KGFT remains relevant. As changes occur in policy, legislation or technology, refinement and adaptation of the KGFT will ensure that it reflects the evolving national context.

For any KGFT-related queries, inputs or recommendations, please contact: [fin@centralbank.go.ke](mailto:fin@centralbank.go.ke).

## **1.4. Interoperability with international taxonomies**

Interoperability is the extent to which a taxonomy is comparable with others in terms of principles, objectives, classifications and TSC, and their similarity in approaches and methodologies used for definition eligibility. Taxonomies that are interoperable with one another can serve to reduce friction in international capital flows while being relevant for the markets that they serve.

The advantages of a taxonomy that is interoperable is that it lowers the risk of market fragmentation, and information asymmetry, which can lead to higher transaction costs of verification and assessment of activities. This is important for emerging markets looking to further integrate into international financial markets.

Interoperability and the extent to which taxonomies reflect international frameworks needs to be balanced with the need for local contextualisation. In support of this, the KGFT was developed using an 'adopt and adapt' approach. The principles and objectives of the EU Taxonomy have been adopted and the work done on the South African Green Finance Taxonomy (SA GFT) has been leveraged, while in parallel criteria development and KGFT application has been adapted to account for national goals and commitments of Kenya.



## PART B – USER GUIDANCE

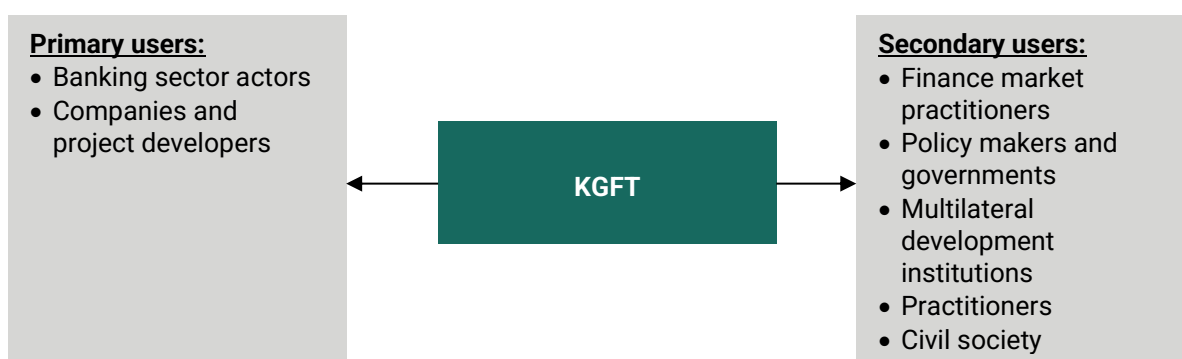
The following section aims to provide KGFT users with guidance as to its application and disclosure, as well as notes on overcoming frequently noted challenges. As such, the section is laid out as follows:

<b>Using this document and appendices</b>	
<b><u>Users of the KGFT</u></b>	
<ul style="list-style-type: none"> <li>- Intended applications of each user</li> <li>- Explaining the primary intended users and the potential secondary users</li> </ul>	
<b><u>Determining taxonomy alignment</u></b>	
<ul style="list-style-type: none"> <li>- How to use the technical screening criteria according to a 7-step process</li> </ul>	
<b>Reporting</b>	
<b><u>Determining taxonomy-aligned finance including</u></b>	<b><u>Impact reporting</u></b>
<ul style="list-style-type: none"> <li>- <a href="#">Geographic application of the taxonomy</a></li> <li>- <a href="#">Verification of taxonomy-related claims</a></li> <li>- <a href="#">Grandfathering principles</a></li> <li>- <a href="#">Using proxies</a></li> <li>- <a href="#">Determining and reporting metrics</a></li> </ul>	<ul style="list-style-type: none"> <li>- References to international best-practice guidance</li> </ul>
<b>FAQs</b>	
<b><u>General challenges</u></b>	
<ul style="list-style-type: none"> <li>- <a href="#">Defining and aligning to activities</a></li> <li>- <a href="#">Access to quality data</a></li> <li>- <a href="#">Materiality considerations</a></li> </ul>	
<b><u>Application considerations</u></b>	
<ul style="list-style-type: none"> <li>- <a href="#">Taxonomic alignment where a client's activities span multiple categories</a></li> <li>- <a href="#">Start simple</a></li> <li>- <a href="#">Bottom-up approach</a></li> <li>- <a href="#">Selecting environmental objective</a></li> </ul>	
<b><u>Future KGFT developments</u></b>	
<ul style="list-style-type: none"> <li>- On the radar for subsequent editions</li> </ul>	

## 2. Application and navigation guidance

### 2.1. Users and applications of the Taxonomy

A green taxonomy will help the banking sector to identify "green" assets in their jurisdictions and make informed decisions on environmentally friendly investments that can promote sustainable economic development and environmental goals. While intended for the banking sector, due to its wide coverage, the KGFT can be leveraged by various stakeholders, including policy makers and government agencies, companies and project developers, multilateral development institutions, practitioners, and civil society organisations.



**Figure 2: Overview of the KGFT’s intended primary and secondary users. Additional detail available in Table 1.**

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

**Table 1: Intended primary users and applications of the KGFT.**

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

<sup>10</sup> World Bank Group, 2020. Developing a national green taxonomy: A World Bank Guide.

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

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

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

<sup>11</sup> World Bank Group, 2020. Developing a national green taxonomy: A World Bank Guide.

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

## 3. Determining taxonomy alignment

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

There is a seven-step process for determining taxonomy-alignment as set out in Table 3 below. The steps offer guidance that will help users determine taxonomy-alignment of the economic activity under consideration. The result is binary – either ‘taxonomy-aligned’ or ‘not’.

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

Detailed guidance regarding each of the seven steps follows below.

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

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

**Step 7****Disclose results**

Taxonomy-alignment is reported as a financial metric. See [Section 4](#) for guidance.

The section below provides further detail on the methodology for determining the alignment of an economic activity/asset with the KGFT.

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

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



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



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



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

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

- Climate change mitigation.
- Climate change adaptation.

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

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

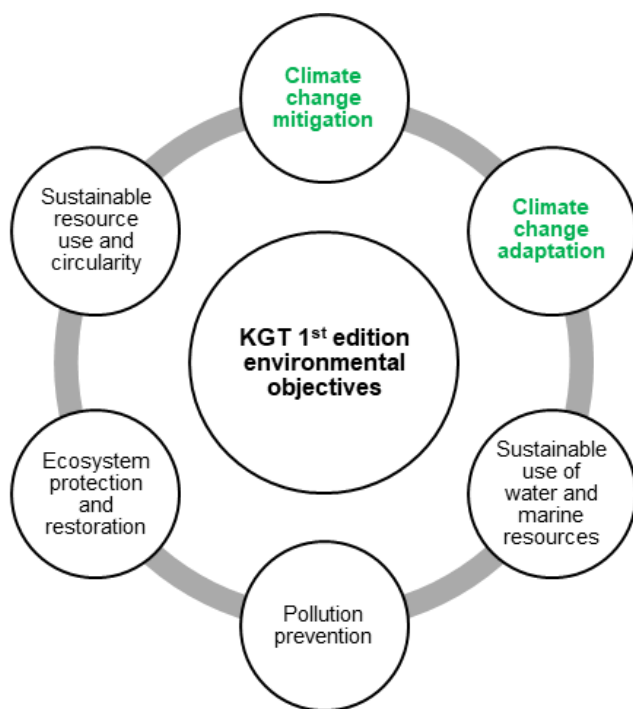
### 3.1.2. Step 2: Identification of environmental objective(s) that the economic activity under consideration intends to contribute towards

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

To determine if an economic activity is eligible, KGFT users must evaluate whether it contributes significantly to at least one of the KGFT's six objectives (detailed in Figure 3 below).

It is possible for an economic activity to make substantial contribution to more than one environmental objective; in this case users are encouraged to identify all the pertinent objectives to which a contribution is made. For practical purposes, while users may feel that the economic activity contributes significantly

to multiple environmental objectives, it may be most efficient to undertake the process of demonstrating one, depending on availability of information. Additionally, when selecting which objective to report contribution to, users should consider the intention behind and stakeholder interests in reporting of taxonomy-alignment. Should substantial contribution be to an environmental objective for which technical criteria are not yet defined in the KGFT technical standards, this ‘co-contribution’ might be stated by the user, but it will not be possible to declare taxonomy-alignment on this yet.



**Figure 3: Taxonomy environmental objectives**

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

The KGFT recognises both economic activities that make a substantial contribution based on their own performance as well as enabling economic activities that, by provision of their products or services, enable a substantial contribution to be made through other activities.

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

An economic activity is considered to contribute substantially to the environmental objective of climate change mitigation where that activity substantially contributes to the stabilisation of greenhouse gas concentrations in the atmosphere at a level that prevents dangerous anthropogenic interference with the climate system. It does this by avoiding or reducing greenhouse gas emissions or enhancing greenhouse

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

gas removals through any of the following means, including through process or product innovation, consistent with the long-term temperature goal of the Paris Agreement<sup>13</sup>:

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

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

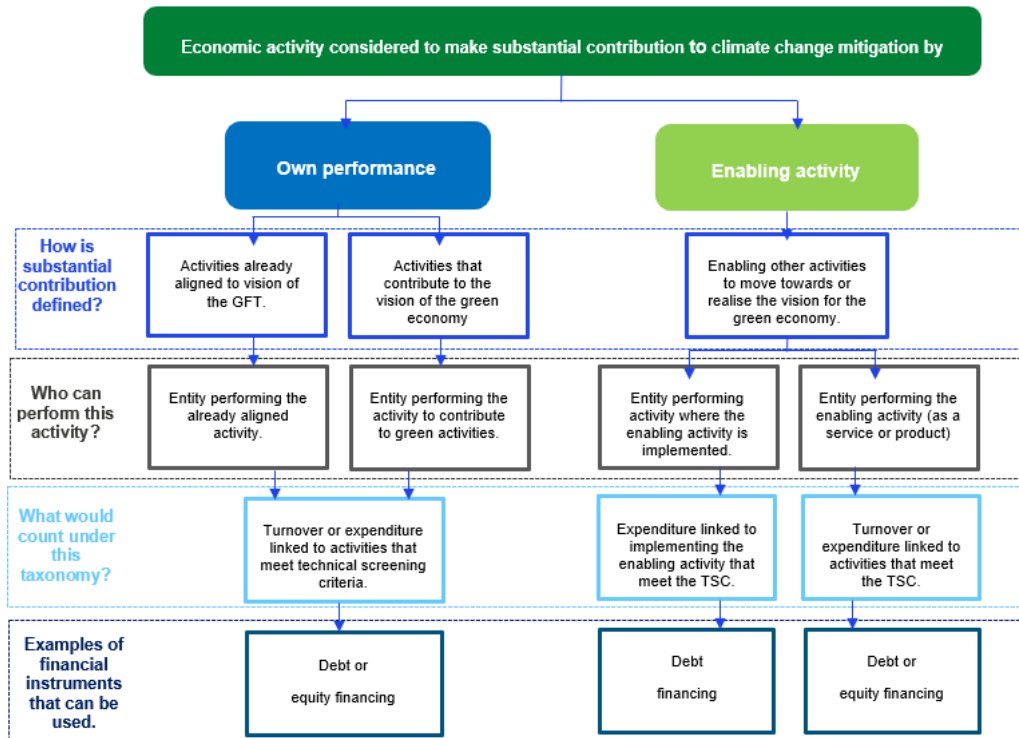
- i. Has greenhouse gas emission levels that correspond to the best performance in the sector or industry;
- ii. Does not hamper the development and deployment of low-carbon alternatives; and
- iii. Does not lead to a lock-in in carbon-intensive assets considering the economic lifetime of those assets.

Figure 4 below illustrates how substantial contribution of an economic activity to climate change mitigation should be assessed based on own performance or as an enabling activity. The illustration covers, among other things, guidance on how substantial contribution should be defined and what counts under the first edition of the KGFT.

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





**Figure 4: Activities making substantial contribution to climate change mitigation**

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

The detail to follow establishes a framework for understanding substantial contributions to climate change adaptation objectives. This definition is broadly consistent with that provided by the Intergovernmental Panel on Climate Change<sup>14</sup>. An economic activity is considered to contribute substantially to climate change adaptation where:

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

<sup>14</sup> The IPCC provides the following definition of adaptation in their 6th Assessment Report: "Adaptation is defined, in human systems, as the process of adjustment to actual or expected climate and its effects in order to moderate harm or take advantage of beneficial opportunities. In natural systems, adaptation is the process of adjustment to actual climate and its effects; human intervention may facilitate this". IPCC (2022), 'Climate Change 2022: Impacts, Adaptation, and Vulnerability. Working Group II Contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. Available: [IPCC\\_AR6\\_WGII\\_FullReport.pdf](#)

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

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

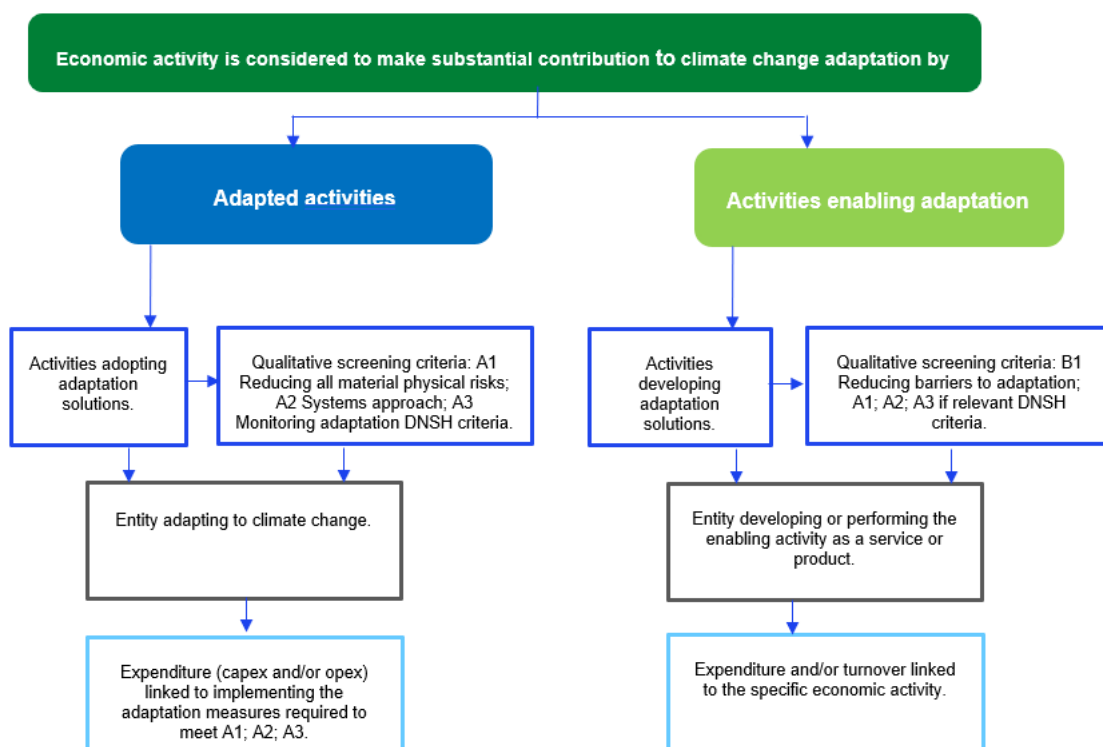
The adverse impact of climate change considered for the development of the taxonomy include impacts resulting from both chronic or slow onset climate-related hazards (such as average temperature increase and sea level rise) and rapid or acute climate related hazards (such as extreme rainfall, storm surges,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

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

1. **Adapted activities:** an economic activity is adapted where it reduces all material physical climate risks identified for the economic activity to the extent possible and on a best effort basis in alignment with Figure 5; and/or
2. **Activities enabling adaptation of an economic activity:** the activity reduces all material physical climate risk in other economic activities and/or addresses systemic barriers to adaptation in alignment with Figure 5, and is itself also adapted to physical climate risks.

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

Figure 5 below illustrates how substantial contribution of economic activities to climate change adaptation should be assessed as either adapted activities or activities enabling adaptation.



**Figure 5: Activities making substantial contribution to climate change adaptation**

#### **d) Guidance for identifying substantial contributions to climate change adaptation**

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

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

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

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

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

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

Another possible way to do this is to identify the Kenya Standard Industrial Classification (KeSIC) code<sup>15</sup> related to the economic activity under consideration and match it to the KeSIC code of the economic activity within the catalogue. (KeSIC codes can cover broad activity and as a result match, a number of activities and, therefore, specific economic activity reference must be referred to when aligning specific economic activities to taxonomy activities).

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

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

### 3.1.4. Step 4: Meet applicable Technical Screening Criteria

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

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

- i. Principles: The underlying rationale for how the activity will result in a substantial contribution and/or avoidance of significant harm to the environmental objective in question.

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

- ii. **Metrics and Thresholds:** including both metrics and thresholds: The method(s) by which the environmental performance of the economic activity will be measured, including defining the boundary for this measurement and the qualitative or quantitative conditions which must be met to enable the performance of the activity in a way that is considered environmentally sustainable.

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

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

Testing alignment to the TSC requires quality and granular data. A combination of third-party data providers together with in-house research can ease the process. Examples include MSCI, ISS, Sustainalytics, FactSet, Trucost S&P, Carbon Delta, GS Sustain Taxonomy mapping tool and RepRisk<sup>161718192021</sup>.

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

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

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

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

Users need to assess performance against each of the five objective's Do No Significant Harm (DNSH) Criteria (excluding the objective that the economic activity under consideration intends to substantially contribute to) to be taxonomy-aligned.

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

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

- International Labour Organisation (ILO) core labour conventions.
- Organisation for Economic Co-operation and Development (OECD) Guidelines on Multinational Enterprises (MNEs).

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<sup>16</sup> MSCI ESG Ratings. Available at [ESG Investing: ESG Ratings - MSCI](#)

<sup>17</sup> ISS Governance ESG Ratings and Rankings. Available at [ESG Ratings | ISS \(jssgovernance.com\)](#)

<sup>18</sup> Refinitiv ESG Data. Available at [ESG data | Refinitiv](#)

<sup>19</sup> Factset ESG Investing Solutions. Available at [ESG Investing Solutions | FactSet](#)

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

<sup>21</sup> RepRisk. Available at [RepRisk | Approach](#)

- UN Guiding Principles on Business and Human Rights.

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

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

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

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

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

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

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

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

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

### **3.1.7. Step 7: Conclude on taxonomy-alignment**

#### **a) Disclose results**

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

The Central Bank of Kenya have developed a standardised reporting framework for the purposes of disclosing taxonomy assessments to regulatory bodies.

## 4. Determining Taxonomy-Aligned Finance

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

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

### 4.1. Geographic application of the taxonomy

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

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

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

### 4.2. Verification of taxonomy-related claims

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

### 4.3. Grandfathering

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

- Economic activities coming into being that demonstrate taxonomy-alignment with KGFT first edition but not subsequent revisions, would have continued coverage because of the grandfathering principle.



- As this is the KGFT first edition, for historic or existing programmes, it must be shown, directly or through alternative methods, that all the requirements of the KGFT first edition have been met.
- It is vital that disclosure statements indicate what edition of the KGFT alignment is reported in terms of. Moreover, new economic activities should not be evaluated against outdated taxonomy editions.

## 4.4. Using proxies

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

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

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

The KGFT provides criteria to determine taxonomy-alignment at an economic activity level. However, taxonomy-aligned finance can be disclosed at an asset/activity-, project-, entity- and/or portfolio-level. An asset/activity, project, entity and portfolio can be defined as follows:<sup>22</sup>

- An asset/activity refers to an economic activity as categorised using the KeSIC framework.
- A project refers to an initiative that is undertaken within the context of an activity.
- An entity is an issuer of a capital markets instrument, for example debt issuance, equity issuance, and so on, or raises financing from a financial institution such as loans or project financing.
- In the context of a bank, a portfolio refers to a collection of assets.

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

Non-financial companies can report the proportion of their economic activities that meet the KGFT's requirements by converting their environmental performance into financial variables (revenue/turnover, CapEx, and OpEx). This provides investors and financial institutions with clear and comparative data to enable them make investment and financing decisions. The utilisation of revenue, CapEx, or OpEx is

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<sup>22</sup> Monetary Authority of Singapore, 2023. Singapore-Asia Taxonomy for Sustainable Finance: 2023 Edition. Available at [link](#). [Accessed February 2024]

determined by the vehicle being financed. Where capital is being extended to fund a specific activity or project, CapEx is more appropriate. The reporting can be done with guidelines elucidated in Table 4:

**a) Turnover**

Revenue turnover refers to the total revenue that a company generates through its normal business activities within a specific period, including the sale of goods, products, or services before any costs or expenses are deducted.

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

**b) Capital expenditure**

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

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

**c) Operating expenditure**

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

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

Financial metric	All environmental objectives excluding climate change adaptation	Climate change adaptation
<b>Turnover</b>	Turnover qualifies where the economic activity is taxonomically aligned and makes significant contribution to applicable MSC criteria of the environmental objective (climate mitigation) and the appropriate DNSH criterion.	Turnover can only be recognised for activities which enable adaptation.  Turnover cannot be recognised for adapted activities at this time. The rationale is that climate change adaptation is a continuous process that may never be completed.
<b>CapEx and OpEx</b>	Should be considered where costs incurred (CapEx and, if applicable, OpEx) are part of a strategy to achieve taxonomy TSC for relevant MSC criteria of the environmental objective (climate mitigation) and relevant DNSH criteria.	Should be considered when the costs incurred (CapEx and, if relevant, OpEx) are part of a plan to meet taxonomy TSC for substantial contribution to climate change adaptation and relevant DNSH criteria.

Financial metric	All environmental objectives excluding climate change adaptation	Climate change adaptation
	For the purposes of a bank, the provision of financing for a company's capital or operational expenditures could use these metrics for reporting taxonomy-alignment.	

Where an entity or portfolio makes substantial contribution to more than one environmental objective, the following approach should be applied:

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

#### 4.6. Disclosing taxonomy-aligned financial metrics

Banks may report taxonomy-aligned finance at a portfolio, fund, or debt instrument level. It should be reiterated that an economic activity is either taxonomy-aligned or not and therefore the finance related to that economic activity is either fully aligned or not at all. However, as economic activities roll up into various categorisations, such as an investment portfolio, a green fund or a multi-project bond, the total finance at these levels can be reported as proportionally aligned. For example:

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

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

## 5. Sustainable Development Performance and Impact Reporting

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

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

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

- International Capital Market Association, June 2023 (or as updated) Harmonized Framework for Impact Reporting Handbook [Online] Available at <https://www.icmagroup.org/sustainable-finance/impact-reporting/green-projects/>
- International Capital Market Association, June 2023 (or as updated) Harmonised Framework for Impact Reporting for Social Bonds [Online] Available at <https://www.icmagroup.org/sustainable-finance/impact-reporting/social-projects>
- World Economic Forum (WEF) September 2020 Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, White Paper [Online] Available at [http://www3.weforum.org/docs/WEF\\_IBC\\_Measuring\\_Stakeholder\\_Capitalism\\_Report\\_2020.pdf](http://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf) and [Explore the Metrics > Measuring Stakeholder Capitalism | World Economic Forum \(weforum.org\)](#)
- Global Reporting Initiative (GRI) Standards, Various [Online] Available at <https://www.globalreporting.org/how-to-use-the-gri-standards/resource-center/>
- Sustainability Accounting Standards Board (SASB) Materiality Map [Online] Available at <https://sasb.org/standards/materiality-map/>
- United Nations Department of Economic and Social Affairs Statistics Division, February 2022 Global indicator framework for the Sustainable Development Goals and targets of the 2030 Agenda for Sustainable Development [Online] Available at [https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%202022%20refinement\\_Eng.pdf](https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%202022%20refinement_Eng.pdf)

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

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

# 6. General Challenges and Consideration in Applying the Taxonomy

## 6.1. Taxonomy application challenges

### Defining and aligning to activities

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

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

### Availability and quality of data

An additional significant challenge is the availability of quality data and information to assess alignment with TSC of the KGFT. Granular data to evidence alignment with TSC is typically not publicly available data and in many instances can be complex and thereby requires sustainability expertise to adequately assess alignment. There is an acknowledgement that the application of the KGFT is a journey requiring engagement from banks with their clients.

### Materiality assessments

The application of the TSC within banking sector portfolios and the reporting of results should consider internal materiality thresholds as linked to the bank's transition planning framework guided by climate risk best practice and requirements. The KGFT aims to be a foundational tool for Kenya's climate finance regulatory system, its application to be guided by banks' internal strategies and other tools in the regulatory system. The KGFT itself is agnostic and does not aim to prescribe its use case.

## 6.2. Taxonomy application considerations

### Taxonomic alignment where a client's activities span multiple categories

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

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

### **Start simple**

At first, start simple, by selecting specific investments where quality granular data is readily available. To understand the exact scope of each activity to identify the most suitable match, test on a smaller portion of the investment portfolio or for activities for which Key Performance Indicators (KPIs) are available/comparable with KGFT criteria. This way you will start to become familiar with how the KGFT works and gain confidence in applying it to bigger investments.

### **Bottom-up approach**

The information required by the KGFT can be complex and it may be useful to involve sustainability expertise to assist in the interpretation and the assessment of the data. Take a bottom-up approach to fairly assess company alignment with the Taxonomy. Where data is not available or unreliable, adopt a precautionary approach and be clear on data limitations.

### **Selecting environmental objective**

In general, adaptation-related information is more difficult to find than mitigation-related information, as greenhouse gas emissions data now have a significant track record. Therefore, projects making substantial contribution to climate change mitigation are more likely to have the data needed to test alignment to the KGFT.

## **6.3. KGFT aspects for future consideration**

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

### **Expansion to other areas of the Kenyan financial sector**

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

### **Completeness of included sectors**

To identify sectors in the Kenyan economy most relevant for inclusion in the KGFT, multi-criteria analysis was performed considering Gross Domestic Product (GDP), Foreign Direct Investment (FDI), share of total private sector credit and GHG emissions. All sectors flagged in the top 10 were included in the KGFT.

The TWG are mandated to ensure that the coverage of the KGFT remains relevant to the Kenyan economic situation and to respond to stakeholder inputs as to the expansion of the coverage where necessary.

### **Gaps in Technical Screening Criteria**

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

### **Transition elements**

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

### **Capacity building and awareness raising**

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

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

### **Regulatory application**

Being the first iteration of the KGFT, the Central Bank of Kenya is issuing this framework to commercial banks and mortgage finance companies licensed under the Banking Act (Cap 488) for application on a voluntary basis for a period of 18 months from the date of issuance. Thereafter, implementation will be mandatory. During the 18-month transition, institutions will build their capacity and make the necessary adjustments in preparation towards mandatory application of the taxonomy. The transition period will also facilitate further engagement between CBK and the banking industry on any changes deemed necessary to facilitate smooth implementation of KGFT.



## **PART C – CATALOGUE OF SECTORS AND ACTIVITIES**

### **7. KGFT eligible sectors and activities**

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

## Priority Sector 1: Manufacturing

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

## Priority Sector 1: Manufacturing

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Manufacture of fertilizers and nitrogen compounds	Climate change mitigation and climate change adaptation	2012	Appendix 1.8
Manufacture of plastics in primary form	Climate change mitigation and climate change adaptation	20131	Appendix 1.9
Manufacture of Glass	No technical screening criteria available in KGFT v1.0	2310	Appendix 1.10
Manufacture of low carbon resources	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.12
Pollution prevention and control	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.13
Reuse, redistribution, refurbishment and recycling facilities	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.14
Remanufacturing of electromechanical products	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.15

## Priority Sector 1: Manufacturing

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Eco-efficient products and processes	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.16
Manufacture of Paper	No technical screening criteria available in KGFT v1.0	1701	Appendix 1.17
Manufacture of Renewable Energy technologies	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.18
Manufacture of equipment for the production of hydrogen and use of hydrogen	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 1.19
Manufacture of batteries	No technical screening criteria available in KGFT v1.0	2720	Appendix 1.10

## Priority Sector 2: Agriculture, forestry and fishing

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Afforestation, forest rehabilitation, management and conservation	Climate change mitigation and/or climate change adaptation	02	Appendix 2.1
Certified agriculture projects	Climate change mitigation and/or climate change adaptation	01	Appendix 2.2
Management of soil and biomass for net carbon sequestration	Climate change mitigation and/or climate change adaptation	01	Appendix 2.3
Introduction of polycultures or associated crops in permanent crops	Climate change mitigation and/or climate change adaptation	01	Appendix 2.4
Installation and operation of water management system for agricultural use in the fresh water stressed areas	Climate change mitigation and/or climate change adaptation	01	Appendix 2.5

## Priority Sector 2: Agriculture, forestry and fishing

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Research, development and dissemination of climate resilient seeds and crops	Climate change mitigation and/or climate change adaptation	01	Appendix 2.6
Implementation of smart agriculture systems to increase the climate resilience of agricultural production and post-harvest handling	Climate change mitigation and/or climate change adaptation	01	Appendix 2.7
Research, development and dissemination of climate resilient livestock breeds	Climate change mitigation and/or climate change adaptation	01	Appendix 2.8
Eco-Tourism	Climate change mitigation and/or climate change adaptation	01	Appendix 2.9
Coffee production	Climate change mitigation and/or climate change adaptation	01	Appendix 2.10
Tea production	Climate change mitigation and/or climate change adaptation	01	Appendix 2.11

**Priority Sector 3: Mining and quarrying**

<b>Economic Activity</b>	<b>Substantial contribution to environmental objective</b>	<b>KeSIC Code</b>	<b>Reference to Technical Screening Criteria</b>
Mining Gold	No technical screening criteria available in KGFT v1.0	0724	Appendix 3.1

**Priority Sector 4: Electricity, gas, steam and air conditioning supply**

<b>Economic Activity</b>	<b>Substantial contribution to environmental objective</b>	<b>KeSIC Code</b>	<b>Reference to Technical Screening Criteria</b>
Production of electricity, heating and cooling from Solar PV, Concentrated Solar Power, Wind Power and Ocean Energy	Climate change mitigation and climate change adaptation	3510	Appendix 4.1
Production of electricity, heating and cooling from Hydropower	Climate change mitigation and climate change adaptation	3510	Appendix 4.2

### Priority Sector 4: Electricity, gas, steam and air conditioning supply

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Production of electricity, heating and cooling from Geothermal	Climate change mitigation and/or climate change adaptation	3510	Appendix 4.3
Production of electricity, heating and cooling from Bioenergy	Climate change mitigation and climate change adaptation	3510	Appendix 4.4
Transmission and Distribution of Electricity	Climate change mitigation and climate change adaptation	3510	Appendix 4.5
Storage of Electricity	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 4.6
Storage of Thermal Energy	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 4.7
Storage of Hydrogen	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 4.8
Transmission and distribution networks for renewable and low-carbon gases	Climate change mitigation and climate change adaptation	3520	Appendix 4.9



### Priority Sector 4: Electricity, gas, steam and air conditioning supply

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
District Heating/Cooling Distribution	Climate change mitigation and climate change adaptation	3530	Appendix 4.10
Installation and operation of Electric Heat Pumps	Climate change mitigation and climate change adaptation	3530	Appendix 4.11
Production of Heating/Cooling using Waste Heat	Climate change mitigation and climate change adaptation	3530	Appendix 4.12
Electricity generation from renewable non-fossil gaseous and liquid fuels	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 4.13
Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 4.14
Production of heat/cool from renewable non-fossil gaseous and liquid fuels	Climate change mitigation	No specific KeSIC code	Appendix 4.15

#### Priority Sector 4: Electricity, gas, steam and air conditioning supply

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Manufacture of Biomass, Biogas or Biofuels	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 4.16
Production of electricity, heating and cooling from gravity potential energy	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 4.17

#### Priority Sector 5: Water supply, sewerage, waste management and remediation

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Water collection, storage, distribution treatment and supply	Climate change mitigation and climate change adaptation	3600	Appendix 5.1
Centralized wastewater treatment	Climate change mitigation and climate change adaptation	3700	Appendix 5.2

### Priority Sector 5: Water supply, sewerage, waste management and remediation

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Anaerobic digestion of sewage sludge	Climate change mitigation and climate change adaptation	3700	Appendix 5.3
Separate collection and transport of non-hazardous waste in source segregated fractions	Climate change mitigation and climate change adaptation	3811	Appendix 5.4
Anaerobic digestion of bio-waste	Climate change mitigation and climate change adaptation	38210	Appendix 5.5
Composting of biowaste	Climate change mitigation and climate change adaptation	38210	Appendix 5.6
Material recovery from non-hazardous waste	Climate change mitigation and climate change adaptation	38210	Appendix 5.7
Landfill gas capture and utilization	Climate change mitigation and climate change adaptation	3900	Appendix 5.8
Direct Air Capture of CO <sub>2</sub>	Climate change mitigation and climate change adaptation	3900	Appendix 5.9

### Priority Sector 5: Water supply, sewerage, waste management and remediation

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Capture of Greenhouse Gas Emissions	Climate change mitigation and climate change adaptation	3900	Appendix 5.10
Transport of CO2	Climate change mitigation and climate change adaptation	3900	Appendix 5.11
Permanent Sequestration of Captured CO2	Climate change mitigation and climate change adaptation	3900	Appendix 5.12
Renewal of water collection, treatment and supply systems	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 5.13
Renewal of wastewater collection and treatment	Climate change mitigation and climate change adaptation	No specific KeSIC code	Appendix 5.14
Water monitoring	No technical screening criteria available in KGFT v1.0	2651	Appendix 5.15
Flood defence	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.16

**Priority Sector 5: Water supply, sewerage, waste management and remediation**

<b>Economic Activity</b>	<b>Substantial contribution to environmental objective</b>	<b>KeSIC Code</b>	<b>Reference to Technical Screening Criteria</b>
Nature based solutions	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.17
Reuse, redistribution, refurbishment, recycling storage and handling infrastructure	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.18
Water saving, recycling and reuse technologies	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.19
Pollution prevention and control	No technical screening criteria available in KGFT v1.0	3900	Appendix 5.20
Handling and Preparation	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.21
Water treatment	No technical screening criteria available in KGFT v1.0	No specific KeSIC code	Appendix 5.22

## Priority Sector 6: Transportation and storage

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

### Priority Sector 6: Transportation and storage

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Sea and coastal freight water transport	Climate change mitigation and climate change adaptation	5012	Appendix 6.7
Sea and coastal passenger water transport	Climate change mitigation and climate change adaptation	5011	Appendix 6.8
Retrofitting of sea and coastal freight and passenger water transport	Climate change mitigation	No specific KeSIC code	Appendix 6.9

### Priority Sector 7: Real estate activities

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Acquisition and ownership	Climate change mitigation	68	Appendix 7.1

## Priority Sector 8: Construction

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



### Priority Sector 9: Information and communications

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

### Priority Sector 10: Financial and insurance activities

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Non-life insurance	Climate change adaptation	6512	Appendix 10.1
Reinsurance	Climate change adaptation	6520	Appendix 10.2

### Priority Sector 11: Trade

Economic Activity	Substantial contribution to environmental objective	KeSIC Code	Reference to Technical Screening Criteria
Sale of new motor vehicles, motor vehicle parts and accessories	Climate change mitigation	451010; 453000	Appendix 11.1
Sale of new electric motorbikes and tuk-tuks, related parts and accessories	Climate change mitigation	454010	Appendix 11.2

## PART D – TECHNICAL SCREENING CRITERIA

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

### 8.1. See Appendices for sectoral criteria:

Appendix 1: Manufacturing

Appendix 2: Agriculture, forestry and fishing

Appendix 3: Mining and quarrying

Appendix 4: Electricity, gas, steam and air conditioning

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

Appendix 6: Transportation and storage

Appendix 7: Real estate

Appendix 8: Construction

Appendix 9: Information and communication

Appendix 10: Financial and insurance activities

Appendix 11: Trade

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

The screening criteria are specific characteristics that can be used to determine whether an economic activity provides a substantial contribution to adaptation. These screening criteria vary between ‘adapted’ activities (those that have implemented adaptation solutions that reduce material physical climate risks identified by a climate risk and performance assessment) (Table 5) and activities that enable adaptation (Table 6).

**Table 5: Screening criteria (A) for ‘adapted’ activities**

Criterion	Description
<b>A1: Reducing material physical climate risks</b>	The economic activity must reduce all material physical climate risks to that activity to the extent possible and on a best effort basis.

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

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

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

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

### 8.3. Generic Do No Significant Harm Criteria

#### 8.3.1. Climate change adaptation

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

All investments in physical assets must be assessed for physical climate risk and vulnerability to ensure that they are resilient, and measures must be taken to reduce the vulnerability to acute and chronic climate risks. The process for undertaking this assessment is demonstrated in Figure 6.

Climate risk and vulnerability assessments must:

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

The climate projections and assessment of impacts must be based on best practice and available guidance and consider the state-of-the-art science for vulnerability and risk analysis and related methodologies in line with the most recent Intergovernmental Panel on Climate Change reports<sup>23</sup>, scientific peer-reviewed publications, and open source or paid models

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

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<sup>23</sup> Assessments Reports on Climate Change: Impacts, Adaptation and Vulnerability, published periodically by the Intergovernmental Panel on Climate Change (IPCC), the United Nations body for assessing the science related to climate change produces, <https://www.ipcc.ch/report/ar6/wg2>

- For investments into activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using downscaling of climate projections.
- For all other activities, the assessment is performed using high resolution, state-of-the-art climate projections across a range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30 years climate projections scenarios<sup>24</sup> for major investments.

The economic operator must develop a plan to implement adaptation solutions to reduce material physical climate risks to the activity. Those adaptation solutions do not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of assets and of other economic activities and are consistent with local, sectoral, regional or national adaptation efforts.

For existing activities and new activities using existing physical assets, the economic operator implements physical and non-physical solutions ('adaptation solutions'), over a period of time of up to five years, that reduce identified physical climate risks that are material to that activity.

For new activities and existing activities using newly built physical assets, the economic operator integrates the adaptation solutions that reduce the identified physical climate risks that are material to that activity at the time of design and construction and has implemented them before the start of operations.

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<sup>24</sup> Future scenarios include Intergovernmental Panel on Climate Change representative concentration pathways RCP2.6, RCP4.5, RCP6.0 and RCP8.5

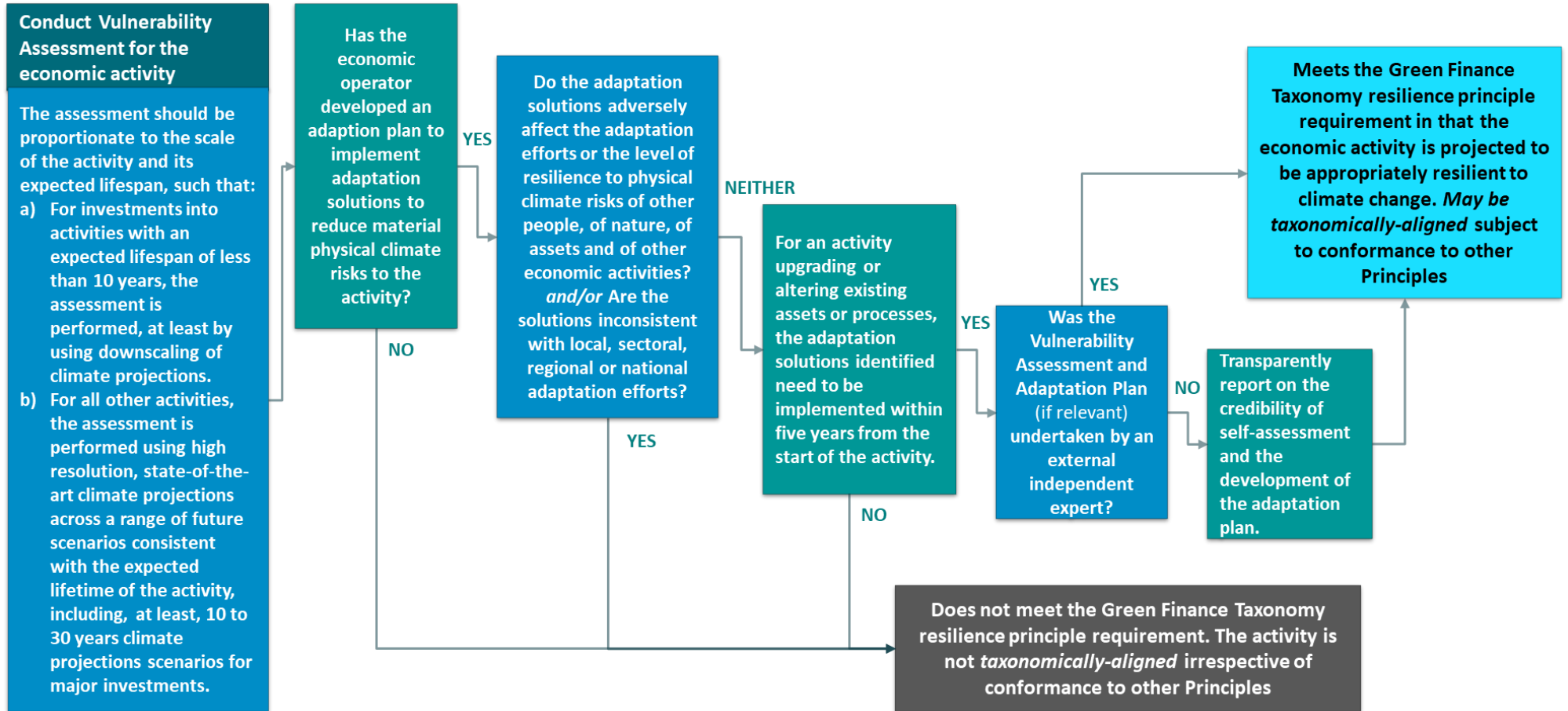


Figure 6: Climate change vulnerability assessment process

### **8.3.2. Sustainable use of water and marine resources**

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

### **8.3.3. Ecosystem protection and restoration**

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

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

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

### **8.3.4. Pollution prevention**

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



## 8.4. Minimum Social Safeguards

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

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

As well as the standards in:

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



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