POLICY BRIEF ON CLIMATE FINANCING IN KENYA

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INTRODUCTION

Climate finance refers to local, national or transnational monies mobilized by government or non-governmental entities to finance climate change mitigation and adaptation actions and interventions. Specifically, it refers to the additional cost of building resilience (adaptation) and reducing emissions (mitigation). Climate change is mainly caused by human activities which lead to global warming. Greenhouse gases produced by these human activities lead to trapping of these gases making the earth's surface to be warmer than usual.

Climate change causes increased frequency and intensity of extreme weather events which cause floods, drought and rising temperatures. All these affect different sectors of the economy. In Kenya some of the sectors affected by climate change are referred to as the Medium-Term Expenditure Framework-MTEF and they include;

a) Agricultural and rural development- flood and drought lead to reduction in food production

b) Health- climate change leads to emergence of new diseases

c) Education- floods lead to inaccessibility of learning facilities

d) Governance - increased frequency of drought lead to conflict for water and pasture by communities living in the arid and semi-arid areas

e) Climate financing is therefore important in realizing a country's Sustainable Development Goals and should be addressed.

Comparison with other Jurisdictions

CASE STUDIES

The selection of case studies presented in this paper provides varied examples of where domestic budget processes have been adapted or capitalized upon to be more responsive to adaptation needs, with the ultimate objective of improving adaptation outcomes.

PHILIPPINES

In Philippines, the government has established a cross-sectoral budget program specifically focused on adaptation and risk resilience to deal with all issues relating to climate changes. The Philippines developed Climate Budget Tagging (CBT) as a tool to monitor and track climate-related expenditures in the national budget system. Starting in 2015, the Philippines mandated CBT in national budget submissions for all government entities. CBT provides comprehensive data on climate change-relevant spending, enabling government to make informed decisions and prioritize climate investments. The National Framework Strategy on Climate Change, 2010-2022 integrates disaster risk reduction, including the enhancement of monitoring, forecasting and hazard warning systems, and mainstreams disaster risk reduction and climate change adaptation into development and land-use planning based on disaster risk assessments.

AFGHANISTAN

The case of Afghanistan demonstrates how climate change adaptation can be integrated into national budget guidelines. This modest tweak to budgeting processes has furnished the Ministry of Finance there with a clear view of the investments that support climate adaptation and resilience or mitigation, while also giving line ministries an indication of which investments are vulnerable. The Role of Domestic Budgets in Financing Climate Change Adaptation 5, to enable pre-emptive adaptive actions. This case points to the value of leadership from an institution with the mandate to change budgets, while simultaneously focusing on the few line ministries that are likely to expend the majority of funds.

MOROCCO

According to the Climate Change Performance Index 2019, developed by German watch (an independent German development and environmental NGO), Morocco ranked 2nd after Sweden and Lithuania in terms of climate protection and climate change action plans. Over the past 6 years, Morocco has strengthened its efforts towards sustainable development by adopting policies and measures that ensures Greenhouse gases (GHG) emissions have been controlled, increase in the share of renewable energy and conservation of energy consumed.

RATIONALE FOR CLIMATE FINANCING IN KENYA

Kenya is among countries regarded as the most vulnerable to climate change due to her dependency on climate sensitive sectors such as the rain-fed agriculture, which directly contributes 24% of the GDP; tourism contributing 27% of the foreign exchange earnings and 12% to the GDP, and hydro-electric energy generation contributing 50% of the total energy production. The combination of these factors has considerably increased Kenya’s vulnerability to climate change.

Kenya is exposed to a potential loss of 2.6 percent of GDP annually through 2030 as a result of the climatic events that is, drought, floods and continued temperature increases. Climate vulnerability manifests in food prices increases during periods of drought. The UN Environment ERISC Phase 2 report suggested that food prices are a principal channel through which environmental constraints will affect national economies and that Kenya stands to suffer a 4.4 percent loss of GDP if food prices double as a result of drought events.

Climate finance is needed for mitigation, because large-scale investments are required to significantly reduce emissions. Climate finance is equally important for adaptation, as significant financial resources are needed to adapt to the adverse effects and reduce the impacts of a changing climate. This will help Kenya will help advance the Kenya Vision 2030 agenda by increasing the country's adaptive capacity and resilience to climate change while promoting low carbon sustainable development.

The threat posed by climate change to the development gains made over recent decades demands an urgent, comprehensive and global response. To tackle climate change challenges in a systematic manner, the Kenya National Climate Change Action Plan (NCCAP) was developed in 2013 to operationalize Kenya's National Climate Change Response Strategy (NCCRS), which was published in 2010 to resolve to lessen the potential hardships that climate change impacts may pose to the sustainable development.

SOURCES OF CLIMATE FINANCE IN KENYA

Kenya has relied on various sources of climate finance and will be mobilized from diverse sources such as the National Government Funding, Bilateral and Multilateral Development Partners, Climate Finance (CF), Adaptation Fund (AF), Green Climate Fund (GCF), and from the Private Sector.

PUBLIC MULTILATERAL SOURCES OF FINANCE

There are various sources including;

1. **GREEN CLIMATE FUND -(GCFs)**

The GCF is a direct access, multilateral fund established in 2010 within the framework of the United Nations Framework Convention on Climate Change (UNFCCC) to support the shift to low-emission and climate resilient development by investing in adaptation and mitigation projects in the developing world. The main objective of the fund is to provide support to developing countries to enable them reduce greenhouse gases transmission. Kenya accesses the funds directly through the National Implementing Entity -NEMA.

2. **ADAPTATION FUND- AF**

NEMA has successfully accessed AF resources of USD 10 million and is implementing an adaptation programme, which is scheduled to run for three years. The Adaptation Fund is a self-standing fund established under the Kyoto Protocol of the UN Framework Convention on Climate Change. The Fund is designed to finance concrete climate change adaptation projects and programs based on the needs, views and priorities of developing countries. A concrete adaptation project -a set of activities aimed at producing **visible and tangible results** on the ground by reducing vulnerability to CC and increasing the adaptive capacity of human and natural systems

BILATERAL FUNDING SOURCES

Bilateral donors are also key actors within this landscape, such as the Japan International Cooperation Agency, the Swedish International Development Agency, the Danish International Development Agency and the Department for International Development. Funds from multilateral sources flow through the National Designated Authority to the accredited entities, who access and disseminate the funds. Funds from bilateral sources go primarily to projects, through executing entities and implementing agencies, such as civil society organizations, consultancies and private sector actors. However, a number of bilateral actors do provide financial support to governmental bodies such as the Climate Change Directorate. At the sub-national level, the Council of Governors act as the intermediary body responsible for coordination between the national and county governments.

BUDGETARY SUPPORT

Climate finance is an important enabling aspect of our efforts to address climate change. The Paris Agreement sets a goal of mobile 'sing USD 100 billion per year by 2020 to support mitigation and adaptation activities in developing countries.

The Kenyan government is making significant investments in climate change and implementing climate change-relevant projects and program. Most of these resources - 45% - are in the energy sector. Forestry and land use projects and water and sanitation activities each account for an additional 20% of resources. Some county governments have allocated approximately 1-2% of their development budget to climate change.

CLIMATE CHANGE FUNDS

Project	Proposed allocations
Green Bonds	23.5 billion dollars
County funds	1-2% of the county funds allocations
Green Climate Fund	112.2 million Kenya shillings
Adaptation	1 billion Kenya shillings

Source: Ada Consortium Kenya

Other sources;

Subsidies

The Climate Change Act, 2016 provides for incentive mechanisms to encourage the transition to low-carbon pathways, as alternatives to the Business-as-Usual scenario. This may also apply to resilience building through subsidized premiums for climate risk insurance; for example, the Kenya Agricultural Insurance and Risk Management Program and the Kenya Livestock Insurance Program.

Domestic private investment the private sector provides climate finance as part of its corporate social responsibility and corporate shared values. The use of public finance to help leverage private sector investment.

POLICY FRAMEWORK IN KENYA ON CLIMATE FINANCING

There are several institutions and policy frameworks that have been set in place at the national level in relation to the constitutional and international framework that help provide guidance to facilitate climate finance governance in Kenya.

1. **Ministry of Environment and Forestry**

The ministry is currently responsible for climate change affairs and is charged with the responsibility of formulating and conducting periodic reviews of climate change policy, strategy and NCCAPs

The Cabinet Secretary to the ministry is the Secretary of NCCC and through the Climate Change Directorate (CCD) provides technical assistance on climate change actions and responses to the county governments. The CS also reports to the Parliament the status of implementation of International and national climate change obligations.

CCD is also part of the Ministry and manages all implementation of NCCAPs

2. National Treasury

The National Treasury through the Climate Change Fund is responsible for developing a strategy and issuing regulations setting out procedures and powers to identify sources of climate finance, monitor use, and work with the Cabinet Secretary responsible for climate change affairs to develop incentives to promote climate change initiatives. The National Treasury also provides financial provision for NCCAPs needed for mitigation against climate change.

3.National Climate Change Response Strategy

NCCRS (2018) aims to strengthen and focus nationwide actions on climate change adaptations and GHG emission mitigation.

It provides a framework for integrating climate concerns into development priorities, government planning and budgeting.

4.National Climate Change Action Plans (NCCAP)

These are 5-year iterative plans that aim to further the country's sustainable development goals. The Act strengthens climate change governance, institutional arrangements, and mainstreaming of climate change into sectoral planning, budgeting and implementation at all levels of government. The policy seeks to;

- Align climate change actions with the Government's development agenda, including the Big Four.
- Provide a framework for implementing Kenya's National Determined Contributions.

The NCCAP is guided by the principles of responsiveness, equity and social inclusion, consultation and cooperation that help in the advancement of achievement of social and economic development objectives.

5.National Climate Change Framework Policy

The National Climate Change Framework Policy (2018) aims to integrate climate change considerations into planning, budgeting, implementation and decision-making at the national and county levels and across all sectors. The policy;

- establishes a fund mechanism and strategy that enables implementation of priority actions for climate resilience and adaptive capacity and low-carbon growth. It aims to explore avenues to attract internal and external climate finance, including through foreign direct investment and other multilateral or bilateral funding.
- promotes private sector involvement in climate finance opportunities by introducing policy incentives, removing investment barriers, creating a conducive investment climate and facilitating access to finance. It aims to adopt and implement sector-specific anti-corruption, transparency, accountability and integrity mechanisms to ensure the prudent management of climate finance.
- seeks to establish a framework for coordination and monitoring and for tracking sources, applications, and impacts of climate finance.

6.County Climate Finance Framework

Outlined in the Constitution under Section 19 of the Climate Change Act, 2016 sets out the role of county governments in climate change issues, which includes integrating and mainstreaming climate change actions into county climate change development plans.

County governments may enact legislation that facilitates implementation of national policies, strategies and legislation at the country level, such as the Climate Change Act, 2016 and the National Climate Change Action Plan, because environmental matters are a devolved function. In view of this, various counties have established working climate finance mechanisms. Four arid and semi-arid counties (Isiolo, Garissa, Wajir and Makueni) have developed climate change policies and accompanied this with County Climate Change Fund (CCCF) legislation that establishes County Climate Change Funds. The CCCF legislation commits counties to contribute a certain percentage of their development budget to local climate actions.

7.National Environment Management Authority

NEMA was nominated by the Ministry of Environment, Water and Natural Resources to be the NIE under the Adaptation Fund (AF). In March 2012, NEMA obtained its accreditation by the Adaptation Fund Board of UNFCCC. This accreditation gave NEMA the mandate to offer vetting, approval and supervision of projects financed by the Adaptation Fund. NEMA bears full responsibility for the overall management of programs and project in terms of financial, monitoring and reporting to the Adaptation Fund.

LEGAL FRAMEWORK IN KENYA

Constitution of Kenya, 2010

The Constitution of Kenya under the Climate Change Act provides a framework that shall guide the country in matters concerning climate change and finance in Kenya. Article 10 sets out national values and principles of governance, such as sustainable development, devolution of government, and public participation, that are mandatory when making or implementing any law or public policy decisions, including climate change

Climate Change Fund

The Constitution under Section 25 establishes a source of financial provision for all climate change activities in the country.

The Climate Change Fund shall be a financial provision mechanism for climate change actions and all interventions approved and managed by the Council. The fund shall be vested in The Treasury.

Sources of finance for the fund:

a) Consolidated Fund set out by an Act of Parliament

b) Money received in forms of grants, donations, endowments and gifts

c) Acts payable to the Fund

The fund shall be used to:

a) Administer funds as authorized by the Council.

b) Provide grants for climate change research and innovation in various fields such as technological research, industrial research, academic research

c) Provide technical assistance to County Governments

d) Finance through grants and loans the implementations of climate change adaptations and mitigation actions.

Climate Change Act

The Act shall be applied for development, management, implementation and regulations mechanism to enhance climate change resilience and low carbon development for sustainable development of Kenya. The Acts aims at meeting several objectives in regard to the Climate Finance in Kenya:

a) mainstream climate change responses into development planning, decision making and implementation;

b) formulate programs and plans to enhance the resilience and adaptive capacity of human and ecological systems to the impacts of climate change

c) mainstream and reinforce climate change disaster risk reduction into strategies and actions of public and private entities

The Act also stipulates establishment of an unincorporated body **National Climate Change Council (NCCC)** chaired by the President, the deputy president shall be the vice chairperson and the Cabinet Secretary responsible for climate change and environment be the secretary to the council. Some of the functions of the council shall be:

a) ensure the mainstreaming of the climate change function by the national and county governments;
b) approve and oversee implementation of the National Climate Change Action Plans (NCCCAPs)

- administer the Climate Change Fund established under this Act
- set the targets for the regulation of greenhouse gas emissions.

The Law also outlines the role of the **Climate Change Directorate** a lead agency working together with the CS on national climate change plans.

Any policy formulated by the government regarding an action plan on climate change, NCCA with consultation with the CS shall consult it together before tabling it to parliament for Approval.

CHALLENGES FACING CLIMATE FINANCING IN KENYA

Climate financing is facing the following challenges;

1. Lack of relevant human resource; Capacity is an issue at the sub-national level, where County Climate Change Funds are hindered by a lack of expertise in and awareness of climate change. This hinders government agencies and ministries from effectively utilizing and engaging the existing mechanisms put in place.

2. The recent introduction of multilateral funding; this has led to the Kenyan government over-emphasizing on the funds due to the promise of large sums of funds as compared to the already existing bilateral funds. Most of the multilateral funds have not yet materialized. This has created a fragmented climate finance landscape, demanding greater capacity within government agencies and ministries to coordinate across all these funding source.

3. There several gaps in National Coordination; for instance, The National Treasury has established a climate finance tracking system, but it does not cover funding from development partners and NGOs. This leaves a gap in funding transparency that results in challenges for funding coordination.

4. Coordination barrier due to lack of harmonized rules and standards across multilateral funding sources. Each fund has different procedures and requirements, making coordination difficult. For example, finance from the Green Climate Fund can only be accessed through the National Treasury, but finance from the Adaptation Fund is accessed through NEMA.

5. Lack of interest in climate change at the highest levels of the Kenyan government; for instance, within the Executive Office of the President, means that climate finance coordination is given less priority than other development issues. This barrier has also resulted in the limited utilization of existing working groups for coordination between government actors, development partners and civil society organizations. Furthermore, the cross-sectoral nature of climate change means that several departments, ministries and other non-state actors are involved in its governance, each with their own interests and agendas that may not always align, thereby hampering coordination.

RECOMMENDATIONS

1. The Kenyan Government needs to equally prioritize both bilateral and multilateral funding and ensure there is a coordination of utilizing the funds with the existing mechanisms put in place legally and in terms of the policy framework put in place.
2. The National Treasury should be given the central role to coordinate all climate finance funds in order to avoid overlapping gaps and enhance accountability
3. The Kenya Government needs to create awareness of climate change and climate finance to all political levels to ensure stronger collaboration between various government agencies responsible for these policies. This would help deliver optimal outcomes for climate financing and increase expertise on climate finance.
4. The general public also needs education on Climate Change and Climate Finance. This will help increase transparency of the funds and the institution put in place to coordinate the issue.
5. The allocation of resources to prioritized activities is one of the key outcomes of an effective governance structure. Such allocation may be informed by explicit and implicit strategies that ensures transparency of fund management so that adaptation activities can be implemented without disruption.
6. There’s need to disburse climate funds as quickly and efficiently as possible or timely to enable the sectors responsible to handle climatic challenges before they escalate.

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