Sustainable Finance: A Self Assessment Tool for Development Finance Institutions

Leveraging on Credit Information Sharing and AADFI Standards

CIS Kenya
Towards a more open credit market

WWF

Acknowledgment

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ACRONYMS

AADFI	Association of Africa Development Finance Institutions
CIS	Credit Information Sharing
CSR	Corporate Social Responsibility
DFIs	Development Finance Institutions
E&S	Environmental and Social
IFC	International Finance Corporation
KBA	Kenya Bankers Association
NSBP	Nigeria Sustainable Banking Principles.
SDGs	Sustainable Development Goals
SDT	Sustainable Finance
SF	Self-Diagnostic Tool
SMEs	Small and Medium Enterprises
SROI	Social Return on Investment
SSSFP, 3SFPs, SSSFPs	Sector -Specific Sustainable Finance Principles
UNEP, FI	United Nations Environment Finance Initiative.
V2030	Vision 2030
WWF	World Wide Fund for Nature

CHAIRMAN'S STATEMENT

The Kenya Vision 2030 aims to transform Kenya into a newly industrializing, middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment. The Vision comprises three key pillars: Economic; Social; and Political. The Economic Pillar aims to achieve a sustained average economic growth rate of 10 per cent per annum. The Social Pillar seeks to engender just, cohesive and equitable social development in a clean and secure environment, while the Political Pillar aims to realize an issue-based, people-centered, result-oriented and accountable democratic system.

Kenya needs a financial system that promotes sustainable economic development rather than boom and bust; sustainable social development rather than inequality and exclusion; and sustainable environmental development rather than damaging the endowments of nature. In short, sustainable finance (SF) must 'better development' and 'better finance' – development that is sustainable in each of its economic, social and environmental dimensions; and a financial system that is focused on the longer term.

We commend the Kenya Bankers Association for the extensive work undertaken over the last three years to introduce and promote SF principles among commercial banks. By pioneering observance of best practices among this core group of CIS Kenya members, KBA has led the way for the rest of our members. The SF journey among non-bank financial institutions will require a strategic, sector-specific approach. This explains the initial focus on the Development Finance Institutions.

Charles Ringera
Chairman,
Credit Information Sharing
Association of Kenya

The DFIs SF Working Group was established in September 2017, and has worked tirelessly to explore the nexus between CIS, AADFI and Sustainable Finance Standards. These efforts have culminated in a consensus on the Sector Specific Standards to be applied by DFIs in Kenya. Based on the agreed standards, the Team has also developed a SDT to measure compliance and highlight areas that need improvement.

It is anticipated that the DFIs will voluntarily and regularly report continuous improvement towards complying with the agreed sector specific principles. This will call for capacity building of the staff of DFIs, staff of CIS Kenya, progressive refinement of the SDT and integration of the framework into the DFI's lending systems. Further efforts will need to be undertaken in order to bring the other members of CIS Kenya on board in the near future. It is my hope that the collaboration with WWF will be extended for this purpose.

I sincerely thank WWF, the DFIs and particularly the Working Group members and the CIS Kenya's secretariat for the tremendous cooperation that has gone into this assignment. It is indeed my pleasure to endorse the Working Group's Report and the Self-Assessment tool.

Further efforts will need to be undertaken in order to bring the other members of CIS Kenya on board in the near future. It is my hope that the collaboration with WWF will be extended for this purpose.

WORD FROM THE CEO, CREDIT INFORMATION SHARING ASSOCIATION OF KENYA

Any person with a conservative perspective of CIS Kenya's mandate would be forgiven for asking the question: How does CIS Kenya harmonize its traditional role of developing a credit information sharing system with its new leadership role of promoting Sustainable Finance among non-banking institutions in Kenya? The answer lies in the recognition that our membership requires a more comprehensive view of the risks that confront them.

There is no doubt that information asymmetry threatens the quality of the loan book. The solutions that credit bureaus offer by providing credit bureau reports, scores and other products are largely used to mitigate the economic risks of the business. However, it has become increasingly clear that our membership must consider the long term effects of the depletion of natural resources and climate change. We set out to complement our CIS value proposition with a conversation on the urgent need for our members to engage with the sustainability issues that call for balancing environmental, social and economic factors of their business.

Jared Getenga
C.E.O,
Credit Information Sharing
Association of Kenya

We identified WWF Kenya as a partner in this journey. We settled on the local Development Finance Institutions operating in Kenya as our first sector of focus and who quite fortunately, are part of the CIS Kenya membership. This WWF-CIS Kenya partnership is intended to encourage non-bank financial institutions to re-examine **indirect and direct risks** that arise from environmental and social (E&S) issues.

Indirect risks arise when lenders are exposed to credit, reputational, legal, operational and market risk that is driven by E&S factors that affect their clients. As an example, indirect risks stem from the impact clients have on the environment and society, such as pollution, natural resource depletion and health and safety concerns for communities and employees. Indirect risks can also stem from the physical impacts that environmental issues such as severe weather events, water stress and fluctuating ecosystem services can have on client performance and success.

Direct risks, on the other hand, arise from institutions' non-compliance with E&S regulation such as workforce conditions or failure to implement greenhouse gas reduction strategies.

We are of the view that time has come for member institutions to draw from the opportunities that arise from sounder loan portfolio thanks to adequate E&S risk identification and management. Working with a committee that was established from among local DFIs, we have defined the sustainability agenda for this category of members drawn from the convergence that exists between AADFI Standards, CIS best practices and Sustainability factors. Having mapped out the common areas of concern, we proceeded to develop a SDT that will help our members undertake a self-assessment of the gaps that exist in their risk management frameworks.

In 2018, we shall refine the SDT and design a framework for strengthening our members' ability to manage the emerging risks and take advantage of the opportunities that come with understanding and managing environmental and social risks. The process shall then be rolled out in the wider non-bank membership of CIS Kenya.

We are confident that the journey we began in October 2017 will have clear benefits to our members. This report summarizes the initial steps and defines our way forward. We wish to thank WWF Kenya for supporting us in these efforts and look forward to continued collaboration on sustainable financial sector programs in Kenya and beyond.

This WWF-CIS Kenya partnership is intended to encourage non-bank financial institutions to re-examine **indirect and direct risks** that arise from environmental and social (E&S) issues.

WORD FROM THE SPONSOR-WWF KENYA

WWF recognises that the Financial Sector will play a critical role in shaping Sustainable Development and now focuses on Finance as part of the 6 global conservation goals and Finance as one of the key 3 drivers of achieving Sustainable Development alongside Governance and Markets.

WWF belives that financial systems can enable economic activities that factor sustainability of the planet through shaping how money flows, and how it can positively influence the flows for environmental benefit. This includes but is not limited to; shaping the circulation of money, the granting of credit, the under-taking of investments and provision of banking facilities including the role of many financial stakeholders among them assets managers and regulators.

WWF believes that environmental risks and opportunities are becoming increasingly important to financial decision-making with attempts by sector players to develop approaches towards incorporating environmental risks in business models. There is growing interest in the investment opportunities shaped within frameworks of Sustainable Development Goals (SDGs), the Paris Agreement, among environmental and green Economy national policies. However, the big challenge is that financial returns are still largely dependent on unsustainable consumption of natural resources that do not factor environmental impacts and limited ability to factor financial, business, and long-term sustainability risks caused by environmental issues.

WWF recognises that a robust, credible, fully-developed and widely-accepted credit rating system that incorporates sustainable factors is urgently needed. This will help drive the sustainability agenda efficiently. WWF believes that proper credit systems should incorporate environmental risk management and social capital preservation criteria, to enhance trust and confidence that financial sector players and investors need.

WWF partnership with the Credit Information Sharing Association of Kenya (CIS-K) would like to take advantage of the opportunities afforded by a longer term view of sustainability to develop a credit rating system that incorporates Sustainable Finance. The application of this system will encourage a shift in the financial sector by improving integration of environmental risks; as well as providing a system for credit rating agencies to guide the delivery of investments for sustainable development.

"WWF believes that proper credit systems should incorporate environmental risk management and social capital preservation criteria, to enhance trust and confidence that financial sector players and investors need"

MOHAMED AWER
CEO, WWF Kenya

WORD FROM A SUSTAINABLE FINANCE EXPERT

Companies of all sizes and across many industries have realized that traditional ways of measuring business performance do not account for the needs of all stakeholders. In order to ensure sustainability over the long term, management teams must do more than maximize shareholder profits. They must consider the needs of all stakeholders, including employees, customers, and community members.

There are three ways in which companies can embrace sustainability: through philanthropy, as part of a risk management strategy, or by integrating sustainable practices into the business model itself.

It is now more evident than ever that Sustainability has become the new mantra and the most prudent way of doing business.

It is high time Organizations realized the need to move beyond the traditional way of profit-driven business where they focus on return on investment also known as building a business case, and they should instead commence the shift to sustainability as a business imperative where they not only look at the social return on investment, but also the negative Environmental & Social impacts of their business and how best they can positively contribute to the Environmental & Social aspects of our business.

Financial Institutions have a huge role to play in sustainability considering that they are capital providers for most businesses; hence they can not only influence their clients but hold them accountable as well. In the Kenyan financial landscape, it is only banks through Kenya Bankers Association have implemented Sustainable Finance Initiatives. The other financial institutions have largely been left out even though collectively they finance projects or organizations with significant current or potential risks and impacts. It is therefore imperative for them to comprehensively integrate Sustainable Finance in their operations.

I consider it a privilege to have worked with the Working Group comprising of various local Development Finance Institutions and the Credit Information Sharing Association of Kenya on this journey which led to the six Sector Specific Sustainable Finance Principles (3SFP) and the Self-Diagnosis Tool (SDT).

There has been a big challenge of lack of self diagnostic tools on sustainability across the world. It is indeed commendable that the Working Group has developed a SDT for use by the DFIs. The Self-Diagnostic Tool is intended to help organizations assess the level of integrating SF, CIS and AADFI standards, identify gaps to be addressed as well as enable report progress over time

I believe that the journey of 1000 miles starts with one step, and with this being just the beginning I am more than confident that CIS Kenya will implement the same for the other non-banking sectors in order to walk the journey with all their members and ensure full integration of sustainable finance.

Caroline Wakesho Sonje
Sustainability Consultant

1 SUSTAINABILITY: ITS DEFINITION, DRIVERS, RISKS AND BENEFITS

Sustainability is about ensuring long term business success while contributing towards economic and social development, a healthy environment and a stable society. Put succinctly, sustainability is anchored in three Ps i.e. Planet, People and Profit. Sustainability is creation of value for a wide range of stakeholders, including shareholders, employees, customers, suppliers, communities and Government, with particular consideration for the needs of future generation.

The global importance of sustainability is reflected in changing customer expectations and emerging national and international legislation. Companies' chances of operating successfully and engaging in international trade depend more and more on their ability to mitigate social and environmental risks and to capitalize on opportunities for innovation. Sustainability has become an essential element of competitive advantage, something which business cannot ignore.

1.1 Sustainability Pillars

Sustainability is most often defined as meeting the needs of the present without compromising the ability of future generations to meet theirs. There are three main pillars: economic, environmental and social. As earlier mentioned, these three pillars are informally referred to as people, planet and profits.

1.1.1 The Environmental Pillar

The environmental pillar often gets the most attention when it comes to sustainability. Companies are focusing on reducing their carbon footprints, packaging waste, water usage and their overall impact on the planet. Companies have found that many of the environmental wins can also have a positive financial impact.

1.1.2 The Social Pillar

The social pillar ties back into another poorly defined concept – social license. A sustainable business should have the support and approval of its employees, stakeholders and the community it operates in. The approaches to securing and maintaining this support are various, but it comes down to treating employees fairly and being a good neighbor and community member, both locally and globally.

1.1.3 The Economic Pillar

The economic pillar of sustainability is where most businesses feel they are on firm ground. To be sustainable, a business must be profitable. That said, profit cannot trump the other two pillars. In fact, profit at any cost is not at all what the economic pillar is about. Some activities that fit under the economic pillar include compliance, proper governance and risk management.

1.2 SUSTAINABILITY DRIVERS

1.2.1 Increased regulation

Institutions have to rapidly produce a comprehensive, organization-wide response to sustainability challenges. Globally, the reception of sustainable Finance has been good and in most countries it is regulated and monitored by the government.

1.2.2 Innovation

Customers' expectations are increasing and require innovative thinking to improve business activities, processes and product offerings.

1.2.3 Stakeholder engagement

Increased stakeholder expectations create a need to effectively respond to sustainability and build trust.

1.2.4 Cost and efficiency opportunities

Rising energy, fuel and material costs create an opportunity to drive efficiency gains through the supply chain as well as downstream to customers.

1.2.5 Disclosure beyond Financial

Existing and prospective investors are increasingly using sustainability performance to inform their investment decisions, leading to more transparent disclosure.

1.2.6 Reputation

Sustainability gives organizations an opportunity to create value for their stakeholders through enhancing their brand & global reach.

1.3 SUSTAINABILITY RISKS

Sustainability presents a number of opportunities and risks for an organization due to their internal social and environmental issues as well as those of their clients.

1.3.1 Reputational risk

Negative aspects of a project harm the organization's image in the media, public, business & financial communities and even its own staff. In early 2012, the international media exposed Apple Company to be manufacturing their products in China whereby they did not adhere to human rights standards, labour laws or occupational safety and health standards. This caused uproar all over the world with countries and companies threating to boycott the use of Apple products.

1.3.2 Liability risk

Organizations may face legal complications, fees and or fines in rectifying social and environmental damages caused by their operations.

1.3.3 Credit risk

Clients not able to repay loans on account of social and environmental issues, for instance, in 2012 homes were demolished in Syokimau Nairobi. These homes had been constructed on airport land. Residential estates or commercial buildings should not be erected near an airport for security purposes. This was a huge loss both to the investors as well as the financial institutions which financed these projects.

1.3.4 Market Risk

This risk is closely associated with reputational risk. It goes without saying once an organization loses its reputation the market share value of the company plummets.

1.3.5 Legal Risk/ Regulatory risk

Projects that flout environmental and social standards may be faced with litigation leading to fines and/ or ultimate closure.

1.4 BENEFITS OF SUSTAINABILITY

1.4.6 Resource Mobilization

This supports organizational sustainability and ensures the continuation of an organization's service provision to clients by making certain that all activities are involved in securing new and additional resources for the organization. It also involves making better use of, and maximizing, existing resources.

1.4.5 Reduced waste & increased profits

This is likely the simplest and most obvious way to engage in sustainable practices. Beginning in the 1990s with offices collecting empty cans for recycling, the effort has grown to encompass waste mitigation in paper (conserving trees and forest habitats), value engineering of products (reworking or developing new processes that use less raw materials, waste less material in production of goods), to changing out incandescent lights for LED lights (greater efficiency combined with fewer bulbs used). Use of resources sustainability ensures increased profits

1.4.4 Attracting employees and investors

People like to be associated with the positive, especially younger generations raised on a steady diet of environmental protection messages. They do not want to be linked to companies implicated in ecological disasters and social welfare scandals. Show your company as respectful of the environment and of its employees and it will attract the caliber of people whom you want to employ and the funds your business needs to expand.

1.4.1 Improved brand image and competitive advantage.

The improvement of brand awareness through "doing good" is becoming one of the pillars of advertising campaigns e.g. Colgate's public awareness ads during Super Bowl promoting water conservation. We can live without electricity or paper–people did just that for millennia–but humanity cannot exist without water, especially potable water. Encouragement and practice to conserve resources not only improves brand awareness, but also penetrates at a deeper level to employees, their families, and beyond. The opportunity to enhance brand image is lost if the company doesn't do as it preaches.

1.4.2 Increased productivity and reduced costs

Detractors of sustainability claim that sustainable business practices eat into corporate profit. Development of sustainable business practices lends itself to efficient operation that streamlines effort and conserves resources, which enhances employee productivity and reduces cost. Reducing cost also encompasses energy conservation strategies that can be as simple as turning off unnecessary lights and insulating walls to more sophisticated efforts such as installation of geothermal heating and cooling systems. Those efforts having greater overall impact will likely be more expensive to implement, but the long-term results justify the investment.

1.4.3 Increased business ability to comply with regulation

With all the discussion regarding climate change, dwindling energy resources, and environmental impact, it's no surprise that state and federal government agencies are enacting regulations to protect the environment. Integrating sustainability into your business will position it to meet changing regulations in a timely manner.

2 SUSTAINABLE FINANCE FOR DEVELOPMENT FINANCE INSTITUTIONS

2.1 Introduction

This chapter describes the process, the observations and the work-plan adopted by the Working Group in coming up with standards that will be applied by the DFI's sector in Kenya.

2.2 Background

The two key cross-cutting drivers of natural capital degradation and loss are Finance and Broader Natural Resource Governance. If inappropriately managed, these two drivers undermine the economic development and the well-being of present and future generations. It is very unfortunate, that most financial institutions in Kenya have not appreciated the strong interdependencies between a healthy natural environment and human development. More significantly, they have little appreciation of their capacity to influence sustainable development through their unique function as financial intermediaries of development finance.

2.3 The Process

Apart from the Sustainable Finance Initiative by the Kenya Bankers Association (KBA), there is no known intervention that promotes responsible financing practices that gives balanced attention to the economic, social and environmental pillars of development. In recognition of this gap, the Credit Information Sharing Association of Kenya and WWF Kenya undertook an exploratory study in December 2016 on the linkage between Sustainable Finance and Credit Reporting. The Report made key recommendations on next steps towards implementing SF in Kenya's financial sector. The study formed phase one of this partnership.

2.4 Observations

The main concerns that arose include the following;

1. The limited appreciation among financial institutions (especially non-banks) of the importance of Sustainable Finance in the developmental agenda. A benchmark study by the Kenya Bankers Association revealed that while most banks practiced some form of sustainability, adoption lacked a unitary structure. The situation is certainly worse among non-banks which finance SMEs. Though the individual activities they finance each contribute a minimal effect to the social and environmental factors, the sum total of these activities could be causing severe effects that can be solved through the development of the Sustainable Finance Principles
2. The absence of tools to be applied by financial institutions in reporting, measuring and monitoring compliance with SF principles.

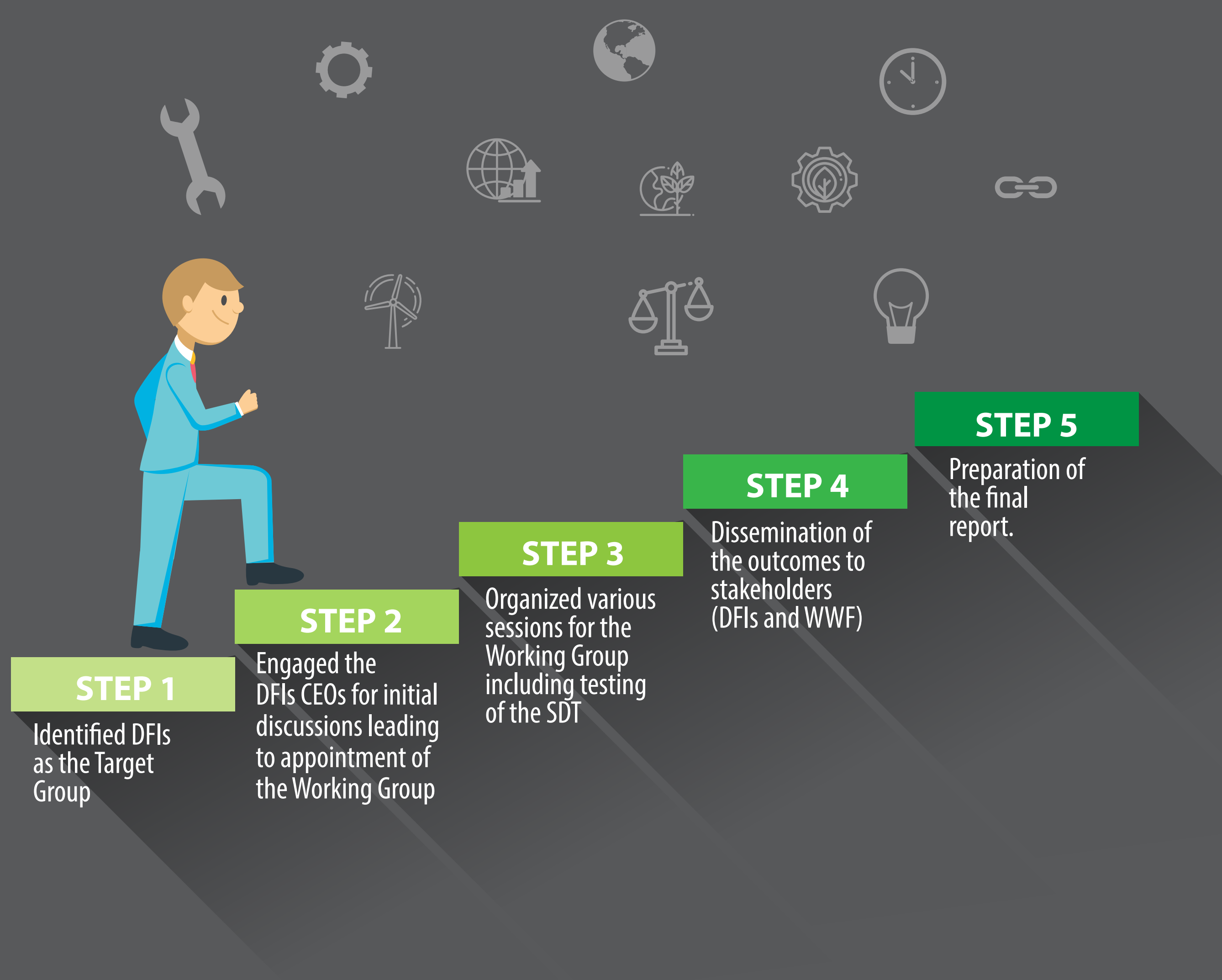
   The partnership between CIS Kenya and WWF identified critical gaps in both understanding and implementation of Sustainable Finance and these gaps were to be addressed through this assignment.

The Intended Outcomes included the following.

- The formulation of sector specific Sustainable Finance Principles (3SFP),
- Development of a Self-Diagnosis Tool (SDT) for assessing, monitoring, subsequently reporting on progress.

2.5 Work-plan Adopted by the Working Group-Rationale

To achieve desired impact within the short time allocated for this assignment,CIS Kenya selected Development Finance Institutions (DFIs) as the target group and focused on having a Working Group (WG) as opposed to holding various workshops. This ensured that the WG members as nominees of their Institutions owned the process and were able to dedicate time to deliberate on the concept design as well as develop the content of the SDT. At the same time, this provided a rich opportunity for capacity building of the members of the WG. The following steps were taken:



3 SELECTED PRINCIPLES ADOPTED BY THE WORKING GROUP FOR DEVELOPMENT FINANCE INSTITUTIONS IN KENYA

Financial Infrastructure broadly defined comprises the underlying foundation for a country's financial system. It includes all institutions, information, technologies, rules and standards that enable financial intermediation.
Poor financial infrastructure in many developing countries poses a considerable constraint upon financial institutions to expand their offering of financial services to underserved segments of the population and the economy. It also creates risks which can threaten the stability of the financial system as a whole.

It is on this basis that the Working group selected the principles below;

3.1 CIS Principles

Credit bureaus have evolved worldwide in recent decades to reduce the cost of assessing borrower risk. Credit reporting benefits both lenders, consumers and at the same time it increases economic activity. The value of a credit reporting system to its host economy depends on the nature and extent of the information collected and shared. A full-file, comprehensive credit reporting system maximizes the economic benefits from credit reporting. The information must also be accurate, timely and whole. A dispute resolution process is also key to the success of such a system.

The World Bank Group being a leader in financial infrastructure development in emerging markets, including payment systems and remittances, credit reporting and secured lending took up the role of international standard setter to strengthen the quality of credit reporting. The Bank published: ***WORLD BANK CREDIT REPORTING GENERAL PRINICPLES*** Report. The report describes the nature of credit reporting elements which are crucial for understanding credit reporting and for ensuring that credit reporting systems are safe, efficient and reliable.

The DFI Working Group adopted the following credit reporting principles and customized them for DFIs;

Source: World Bank Guidelines for Credit Reporting

3.1.1 General Principle 1: Data

Credit reporting systems should have relevant, accurate, timely and sufficient data—including positive data that is collected in a systematic basis from all reliable, appropriate and available sources, and this information should be retained for a sufficient amount of time

3.1.2 General Principle 2: Data Processing: Security and Efficiency

Credit reporting systems should have rigorous standards of security, reliability and efficiency.

3.1.3 General Principle 3: Governance and Risk Management

The governance arrangements of credit reporting service providers and data providers should ensure accountability, transparency and effectiveness in managing the risks associated with the business and fair access to the information by users

3.1.4 General Principle 4: Legal and Regulatory Environment

The overall legal and regulatory framework for credit reporting should be clear, predictable, non-discriminatory, proportionate and supportive of data subject and consumer rights. The legal and regulatory framework should include effective judicial or extra-judicial dispute resolution mechanisms.

3.2 AADFI Standards

3.2.1 Overall Objectives of AADFI Standards

African Association of Development Financial Institutions (AADFI) came up with Prudential Standards & Guidelines as guiding principles set to govern the management and operations of the DFIs in Africa. These standards and guidelines focus on three main areas, namely; Governance standards, Financial Prudential standards and Operational Standards. The primary objectives of these standards are;

- To provide DFIs with useful guidance as to what their own rules and regulatory policies should be as well as benchmark to compare these policies and results with other DFIs in the region.
- To introduce a self-regulated early warning system for DFIs to assist them in initiating credible remedial measures before they are forced to do so by owners, regulators or lenders
- Provide central banks and owners in some countries with useful proposal for possible custom tailoring of existing regulatory requirements imposed on DFIs as well as providing them with some leverage to require weaker DFIs to take corrective measures when they are showing signs of trouble.
- Provide Donors with a useful set of standards and yardsticks by which to asses DFIs and their suitability as financial intermediaries worthy of funding and/or technical assistance support.
- Improve the reputation of DFIs that adopt the standards to provide them with a SDT for dialogue with Government owners and regulators by showing them what is considered good practice within the region, provide them with insight as to how they compare with other DFIs in the region and to assist in presenting their case to Donors for support.

3.2.2-Standards

There are 100 AADFI Standards and Guidelines developed but the DFI Working Group identified 23 principles to be adopted by the DFIs in line with this assignment. The 23 principles touch on Environmental conservation, loan classification and reporting standards;

3.2.2.1Governance Standards

AADFI standard No.	Agenda
1	All Board members except Government ex-officio members should meet professional and technical eligibility requirements
2	Government officials should play a minor role on Boards of Directors and should not be Chairman
3	No direct Government approvals should be required except for those normally made at a Shareholders Meeting
7	The CEO should be chosen by the Board or the Shareholders based on strong professional and technical background
24	There should be an internal/outsourced audit department and it should report directly to the Board of Directors
31	Loan status reports should be available monthly which provide detailed analysis of performing and nonperforming loans and aging data
37	DFIs should adhere to internationally recognized guidelines (e.g., nationally required guidelines) relating to environmental impact

3.2.2.2 Financial Prudential Guidelines

AADFI standard No.	Agenda
48	Loans should be classified and uncollectible loans written off in accord with international standards or central bank requirements
49	Nonperforming loans should not exceed 25% of the gross loan portfolio
55	DFIs should not have maximum single financial exposures that exceed 25% of net worth
58	Sectoral net loan and equity investment positions (sub-sectoral in the case of specialized DFIs) should not exceed 30% of total investment in loans and equity

3.2.2.3 Operational Standards

AADFI standard No.	Agenda
70	DFIs should charge a market rate of interest on essentially all lending and should charge higher interest rates on higher risk loans
75	Most new loans should be custom tailored to seasonal cash flow of borrowers or repayable on a quarterly or monthly basis
76	At least 50% of lending during the last year should be for expansion projects or green field projects sponsored by repeat borrowers
78	DFIs should utilize co financing on a regular basis and do some co-loan administration
79	DFIs should utilize credit risk guarantee alternatives where available to reduce their own risk or catalyze term lending by others
82	DFIs should have specific policies and procedures for reducing potential undermining of portfolio quality caused by trying to meet lending volume targets
86	Minimum equity requirements for projects should include a minimum of 30% of project cost of which at least 10% of project cost should be in the form of liquid resources
87	DFIs should normally require that projects have projected debt service coverage ratios of at least 1.3 times and loan security (collateral) of at least 110% of the loan amount
88	A satisfactory formal credit reference report, inter alia, including all banking relationships, should be required for all loans
89	All significant project risks should be explicitly identified and an FIRR inclusive of sensitivity tests for all such risks should be calculated
90	An ERR, jobs created, and resource leveraging (amount of debt supplied by other lenders) should be calculated for all projects
100	DFIs should attempt to diversify into new products or businesses beyond long term financing such that they represent at least 15% of gross revenue

3.3 Sustainable Finance Principles

During the development of the Sustainable Finance Principles, the Working Group benchmarked on the existing principles both local and international in order to develop a universal perspective that would ensure the principles are relevant to the sector players. The local and international principles that the WG cited included the following;

3.3.1 Equator Principles

These principles form a risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in projects. These principles are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making;

3.3.2 UNEP FI

This is a partnership between United Nations Environment and the global financial sector created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. More than 200 financial institutions, including banks, insurers, and investors work with UN Environment to understand today's environmental, social and governance challenges, why they matter to finance, and how to actively participate in addressing them;

3.3.3 Nigerian Banking Principles

The Nigerian Sustainable Banking Principles (NSBP) programme was constituted under the auspices of the Central Bank of Nigeria and the Bankers' Committee to formulate sustainable banking standards and guidelines for Nigerian banks. The principles were issued in 2012 via a circular and banks directed to fully adopt and implement them;

3.3.4 Kenya Bankers Association (Sustainable Finance Initiatives)

Kenya Banks through KBA launched the five Sustainable Finance Principles in December 2015 an event graced by the Central Bank Governor. The principles are consistent with international best practice as well as aligned with the risk management practices of individual banks and relevant to the Kenyan and regional context;

3.3.5 UN Global Compact Principles

This is the world's largest corporate sustainability initiative, is a United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation;

3.3.6 International Finance Corporation Performance Standards

The Standards are used to define IFC clients' responsibilities for managing their environmental and social risks would be a great inclusion into the capturing process in order to ensure that the measurement of the environmental and social risks is well captured;

3.3.7 The Sustainable Development Goals

These are a set of 17 Global Goals, which are measured by progress against 169 targets. The SDGs cover a broad range of social issues like poverty, hunger, health, education, climate change, gender equality and social justice; and

3.3.8 Kenya's Vision 2030

This is the country's development programme from 2008 to 2030. It was launched on 10 June 2008 by Former Kenyan President Mwai Kibaki. Its objective is to help transform Kenya into a "newly industrializing, middle-income (income exceeding World's average currently at US$10000) country providing a high quality of life to all its citizens by 2030 in a clean and secure environment."

The political pillar of Vision 2030 is an issue-based system is one that meets the widest public interest. "People-centered" refers to responsiveness to the needs and rights of citizens, whose participation in all public policies and resource allocation processes is both fully appreciated and enabled. A result-oriented system is stable, predictable and based on measurable outcomes (including performance). An accountable system is open, transparent and permits the free flow of information, and is one in which the leaders are accountable to citizens. Such a vision will guarantee Kenya's attainment of specific goals, strategies and flagship projects outlined under Vision 2030's economic and social pillars.

It was on this basis that the WG developed six principles as follows;

SOCIAL EXTERNAL

Ensure that our business operations influence: community development, poverty reduction, access to quality education, inclusivity and attainment of basic human needs in the local communities while mitigating emerging and existing risks

SOCIAL INTERNAL

Ensure that our internal policy adheres to Human Resources best practice, promotes gender equality and inclusivity as well as occupational health safety standards.

ECONOMIC EXTERNAL

Ensure our business operations promote

a) Access to and use of clean energy
b) Industrial growth, innovation and infrastructural development
c) Development of sustainable cities and communities
d) Responsible consumption and production and
e) Financial inclusion and literacy

ECONOMIC INTERNAL

Adopt strategic & economically viable guidelines, while mitigating associated risks and seizing existing and arising opportunities to ensure financial stability and sustainability.

ENVIRONMENTAL

Ensure environmental protection and conservation through resource efficiency, utilization of green resources, responsible lending, abating all forms of pollution and adverse impacts, mitigation and adaptation of climate change and biodiversity conservation.

POLITICAL

Aim to align business operations with initiatives and partnerships that promote peace, positive nationalism and political neutrality while buffering its business from adverse political impacts.

4 DESCRIPTION OF THE SELF-DIAGNOSTIC TOOL

The Working Group developed lending standards based on three thematic areas (i.e. AADFI Standards, SFI and CIS). Each thematic area was further sub-divided into sub-sections with its specific assessment areas. Each subsection was assigned a weighting.

Using these assessment areas and their respective weighting, an assessment SDT was developed using Microsoft Excel. The purpose of the SDT is to aid DFI's self-assess their compliance towards the sustainable finance standards. The SDT issues a report on areas needing improvement. The SDT displays three worksheets (each being a thematic area).

A user is required to answer questions presented as relates to the DFI. At the bottom of each page are buttons that navigate the user through the worksheets; as well as "Submit" buttons that:

a. Check all mandatory fields have been filled out; and
b. Compute the compliance level of the DFI based on the filled-in answers.

When all mandatory fields have been filled-out and successfully submitted, the SDT opens up a new worksheet that displays:

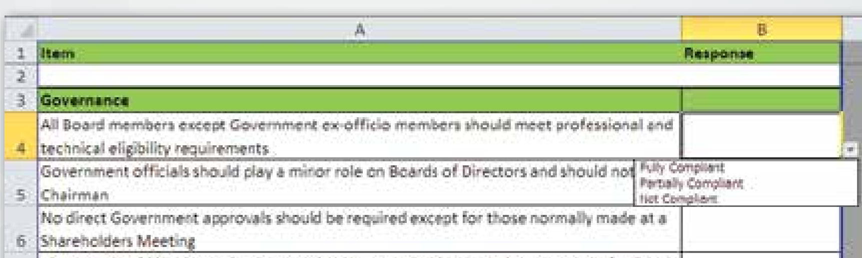
a. The DFI's level of compliance as a percentage; and
b. A brief report highlighting areas that the DFI should work on to meet full compliance.

This assessment SDT is best used twice a year – Mid through the financial year and at the end of the financial year. This frequency of assessment will allow the DFI work towards compliance while allowing the DFI to regularly monitor its progress.

Below is a summary of the SDT principles and a screenshot of its contents:

The SDT and the metrics in its weighting

AADFI (total 50%)	Weight
Governance Principles	40%
Finance Principles	20%
Operational Principles	40%
Sustainability (total 25%)	
Social External	14%
Social Internal	8%
Economic External	15%
Economic Internal	10%
Environmental	25%
Political	28%
CIS Principles (total 25%)	
Data Principles	25%
Data Processing, Security & Efficiency	25%
Legal & Regulatory Environment	25%
Governance & Risk Management	25%
Cross Border Data Sharing	0%



	A	B
1	Item	Response
2		
3	Governance	
4	All Board members except Government ex-officio members should meet professional and technical eligibility requirements	
5	Government officials should play a minor role on Boards of Directors and should not Chairman	Fully Compliant Partially Compliant Not Compliant
6	No direct Government approvals should be required except for those normally made at a Shareholders Meeting	
	The CEO should be chosen by the Board or the Shareholders based on strong professional	

5 RECOMMENDATIONS

Having looked at the self-diagnostic tool, the Working Group recommended the following:

01 There is need for improvement of the Rudimentary SDT developed in Phase II and assisting the DFIs to integrate it into their compliance system.

02 There is need to develop a Customer Appraisal SDT that helps DFIs to assess their customers on SF. This SDT will become part of the appraisal process and each DFI would set a minimum compliance criterion which their customers must meet before funding.

03 Building capacity of staff of the DFIs on Sustainable Finance, ability to monitor and report on compliance with the Self-Diagnostic tool as well as cascade the knowledge to other staff.

04 Building capacity of the CIS Kenya staff in order to act as "internal auditors" for the DFI's on matters SF

05 Building partnerships that would help the DFIs access finance for SF projects.

06 Hold a regional conference with public sector players including the local and international players to launch the framework for measuring and reporting SF among local DFIs and where locals DFIs can network with regional DFIs

07 Rollout the SDT and the Customer Appraisal Tool to other interested credit providerd in both public and private sectors.

6 PARTICIPATING INSTITUTIONS

IDB Capital Limited is a development finance institution (DFI) established in 1973 by the Government of Kenya for the purpose of furthering economic development of Kenya. This is achieved through provision of medium and long term finance to industrial and commercial enterprises in various sectors of the economy and in virtually every part of the country.

Its Vision

To be the development finance partner of choice for the industrial investor

Its Mission

Providing financial solutions to enterprises in Kenya to enable them establish, expand and modernize their operations to foster sustainability and competitiveness in economic development.

Tourism Finance Corporation (TFC) is a corporate body established in 1965 through an Act of Parliament, Cap 382 of the Laws of Kenya. The Corporation is a specialized Development Financial Institution (DFI) with the mandate of facilitating and providing affordable development funding and advisory services for long-term investment in Kenya's tourism industry

Its Vision

To be the leading and reliable Development Financial Institution (D.F.I) in providing affordable and accessible financial facilities to the tourism industry

Its Mission

To develop and diversify Kenya's Tourism industry by providing a range of advisory and financial services to investors in tourism related enterprises.

The Industrial & Commercial Development Corporation (ICDC) was established in 1954 under its own Act of Parliament Cap 445 of the Laws of Kenya. At that time, it was called IDC (Industrial Development Corporation) but the name was later changed to ICDC. ICDC has 60 years of experience and stability in promoting projects that create wealth and jobs for Kenyans in diverse sectors of the economy. It enjoys a heritage of expertise and stability as it promotes businesses with the potential to become tomorrow's blue chip companies.

Its Vision

To be Africa's World Class DFI-Focusing on industrial growth and development in Kenya as well as having a significant impact on creating jobs and raising household incomes for a profit.

Its Mission

To Catalyze Wealth Creation-By investing in opportunities with the potential to create tomorrow's blue chip companies.

Women Enterprise Fund is a Semi-Autonomous Government Agency in the Ministry of Public Service, Youth & Gender Affairs established in August 2007, to provide accessible and affordable credit to support women start and/or expand business for wealth and employment creation.

Its Vision

A transformed Kenyan woman contributing to sustainable socio-economic development.

Its Mission

To mobilize resources for sustainable access to affordable financial and business support services to empower Kenyan women.

The Agricultural Finance Corporation (AFC), is a wholly owned Government Development Finance Institution (DFI), established in 1963 initially as a subsidiary of the Land and Agricultural Bank. In 1969, it was incorporated as a full – fledged financial institution under the Agricultural Finance Corporation Act, Cap 323 of the laws of Kenya. It was then tasked in assisting in the effective and peaceful transfer of land to indigenous farmers, as well as injecting new capital to farm owners to spur development. After successful implementation of this task, AFC was further reconstituted in 1969 to assume a wider mandate by taking over the functions of the Land and Agricultural Bank of Kenya. Today it remains the leading Government Credit institution mandated to provide credit for the sole purpose of developing agriculture.

Its Vision

"To be the financial institution of choice for agricultural development in Kenya, aiming to be the best Development Finance Institution (DFI) in the World."

Its mission

"To provide customer focused and sustainable financial services to the agricultural sector in Kenya."

6.1-Quotes from some of the participants

Winnie C Too, AFC
Let's strive to defend the interests of those whom we've never met and never will. It's all about having a shared value for all the stakeholders.

Willice Okumu, AFC
Sustainable Finance equates to Sustainable businesses, Sustainable prosperous healthy societies and a healthy and happy Planet.

Macline Onyiego, IDB Capital
We all have to do our part in creating awareness about sustainability, ensure that what we do today will not compromise the future generation in meeting their own needs.

PHOTO GALLERY

CIS Kenya staff attending a UNEP FI conference (supported by WWF)

Working Group workshop

CIS Kenya secretariat in a strategy workshop

Members of the Working Group in a workshop

Working Group Members in a workshop

Working Group Members in a workshop

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