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Insight Note

Why Kenyan Banks Have the Capital but Still Aren’t Lending Green

An origination diagnostic for Kenya's green lending gap.

Prepared by Andia Igobwa
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Kenya's commercial banks are not capital-constrained. In fact, the Kenya Bankers Association's State of the Banking Industry Report (2025) confirms that the sector's Total Capital-to-Risk Weighted Assets ratio stood at 19.7% in 2024, well above the regulatory minimum of 14.5%. The Core Capital is held at 17.4% against a 10.5% threshold. These are not banks waiting for capital.

They also have the frameworks. In April 2025, the Central Bank of Kenya (CBK) released the Kenya Green Finance Taxonomy (KGFT), which classifies which economic activities qualify as green. The CBK's Climate Risk Disclosure Framework (CRDF) came into force at the same time, requiring banks to identify and report climate-related risk. Both documents were developed with European Investment Bank technical assistance running from 2023 to 2025. Therefore, the regulatory scaffolding is in place.

The deployment picture does not match this. Green lending remains concentrated, visible in a handful of institutions, in a narrow product range, reaching a limited share of the potential green borrower base. The constraint is neither at the policy layer nor at the capital layer. It sits at the origination layer: the point where capital meets a potential borrower, and where a loan either gets written or does not.

What the Evidence Shows

The deployment pattern reveals where origination capability has been built and where it has not.

Equity Bank Kenya disbursed KES 24.7 billion in climate-related loans and grants in 2023, directed to clean energy, water efficiency, renewable energy, and climate-smart agriculture (Equity Group Holdings, 2024). NCBA Group continued onboarding customers against an allocated KES 2 billion EV financing facility and a KES 500 million solar photovoltaic facility, the first products of either type from a domestic Kenyan commercial bank (NCBA Group PLC, 2024). These are deployment figures from banks that built explicit origination infrastructure.

Sector-wide adoption is broad but shallow. A survey of Kenya's top ten CBK-rated banks found that 96% had adopted at least one green banking practice. The most common initiatives were environmental CSR (90%), customer awareness programmes (88%), and green financing instruments (78%) (Journal of Environment and Climate Change, 2025, academic survey, Kenyatta University). The lending instrument, the thing that actually moves capital to a borrower, trails the soft practices by a measurable margin.

WWF's Sustainable Banking Assessment for Africa (SUSBA 2025) places Kenya second continent-wide, with an ESG integration score of 43.7%, behind South Africa at 50.1%. This is a disclosure and governance measure. It tracks how well banks identify and report climate-relevant information. It does not track whether that identification changes a single lending decision.

The CISL's April 2026 analysis of private climate finance flows in Africa identifies persistent structural constraints: weak project pipelines, insufficient policy credibility, domestic capacity limitations, and distortions in how African investment risk is perceived (CISL, 2026 sector landscape). These are continent-level barriers. They explain why international capital does not flow to Africa at scale. They do not explain why a Kenyan bank, holding capital well above regulatory minimums, with a concessional DFI credit line and a new taxonomy, does not originate green loans against it.

For that, the stall is specific. It sits at origination.

What This Means: Three Diagnosable Stall Mechanisms

Three mechanisms produce the deployment gap. They operate in parallel and compound each other.

> Stall 1: No green product mandate at the origination level. A loan officer originates what their workflow supports, their performance targets reward, and their training prepares them for. That is conventional credit. A board-level sustainability commitment does not reach the credit desk unless it is embedded as a product mandate: a defined green product, eligibility criteria embedded in the origination workflow, and an incentive for officers to identify and write green deals.

Without this, green origination is optional. Under volume pressure, the option becomes invisible. The bank's sustainability strategy operates at the strategy layer. Origination runs on conventional rails. This is not a failure of intent. It is a structural outcome of commitments that stop before they reach the level where lending decisions are made.

> Stall 2: Eligibility confusion persists at the transaction level. Before April 2025 (CBK, 2025a), Kenya had no formal taxonomy. "Green" was interpretive. Each bank defined it differently. The KGFT resolves this at the definitional level. It does not resolve it at the operational level without additional steps: product design that maps credit assessments to KGFT categories, officer training that enables fast eligibility classification, and workflow integration that makes the classification routine rather than a matter for legal escalation.

A taxonomy defines the boundary, but does not equip the officer to work confidently with it. That competency requires a structured investment in credit product design and officer capacity. The taxonomy document alone does not deliver it.

> Stall 3: Compliance behaviour substitutes for deployment behaviour. The CBK's three frameworks- the 2021 Climate Risk Management Guidance, the CRDF, and the KGFT are a compliance architecture. They require banks to identify, manage, and disclose climate-relevant risk. They do not require green lending volumes. A bank can achieve full CRDF compliance with zero new green loans on its books.

This is the compliance-over-behaviour pattern. Disclosure scores improve, but deployment does not automatically follow. Banks are responding rationally to what the frameworks measure. ESG integration and risk governance scores, the metrics on which Kenya leads Africa, do not require deployment evidence.

Together, these three mechanisms explain a specific market shape: broad adoption of green practices, shallow actual lending volumes, and deployment concentrated in institutions that built origination infrastructure rather than treating green finance as a reporting function.

So What

First, commercial banks' decision is not whether to invest in green finance but what kind of investment to make.

The disclosure posture is largely in place at Tier 1 banks and satisfies current regulatory requirements. The origination posture is different: a green product mandate embedded in the credit workflow, KGFT eligibility integrated into origination screening, officer-level incentives that reward green deal identification, and a screened pipeline of potential green borrowers.

The CRDF is phasing in requirements that will make green loan portfolio volumes comparable across the sector. When disclosure frameworks make deployment gaps visible to DFI partners, regulators, and rating agencies, a compliance-only posture becomes a performance gap that requires explanation.

The substitution moves: build screened green SME pipelines and embed taxonomy eligibility into origination workflows instead of treating green finance as a reporting function that stops at the sustainability team. Not more concessional capital. Not additional policy guidance. Origination infrastructure.

Secondly, Kenyan banks do not have a capital shortage. Additional credit lines placed with banks that have not built origination capability will not deploy at the projected volumes. The constraint the facility is designed to address sits upstream of the facility itself.

Capital that is moving in this market moves because of the origination infrastructure, not the facility design. Equity Bank's KES 24 billion is not a disclosure figure. It is the result of deliberate product investment. The priority for DFI partners is not better facility terms but a technical assistance that reaches the credit desk: pipeline development, KGFT-aligned credit screening tools, and officer training.

Third, project developers and green SME builders seeking green credit from a Kenyan commercial bank whose loan officers have no green product mandate, you are not competing against other green borrowers. You are competing against the officer's uncertainty about eligibility and their incentive to write conventional loans instead.

The banks like Equity Bank and NCBA have built origination capability and screened pipelines that they actively source from. Knowing which institutions have made this investment and which have not changes how you approach the credit market.

The more productive question for any institution currently holding a DFI green credit line: What does the path from sustainability strategy to first green loan actually look like inside your credit process, and what would have to change for that path to exist?

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