Climate Capital Insights

Insight Note

The Missing Layer Between the Kenya Green Finance Taxonomy (KGFT) and Green Lending

Why publishing a taxonomy does not make it operational, and what financial institutions actually need next.

Scope: *This Insight Note examines the operational gap between KGFT publication and taxonomy-aligned lending decisions in Kenya. It does not assess the KGFT's environmental ambition or compare it with other taxonomies.*

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INSIGHT NOTE

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1. Publication Is Not Operationalisation

The Central Bank of Kenya (CBK) released the Kenya Green Finance Taxonomy (KGFT) in April 2025. The document defines 99 eligible economic activities across 11 sectors, establishes a seven-step alignment process, and sets out the principles of Substantial Contribution (SC), Do No Significant Harm (DNSH), and Minimum Social Safeguards (MSS). The taxonomy is voluntary for 18 months from release, with mandatory compliance from October 2026.

This brief is intended for bank credit and sustainability teams, DFI co-lending partners, and supervisors assessing taxonomy-aligned lending claims before October 2026.

The consensus read of the KGFT is that the taxonomy creates a pathway. Publish the classification framework, and banks gain a tool for green lending decisions. That read is incomplete. A taxonomy classifies what may qualify as green. It does not, by itself, create the evidence rules, staff tools, review process, or disclosure workflow needed to support a lending decision. These are operationalisation problems. They require tools, evidence standards, and review processes beyond the taxonomy text.

The KGFT's architecture is sound. The challenge is translation into evidence rules, bank tools, and review mechanisms. Without that translation layer, the taxonomy is a framework banks can reference but cannot consistently apply.

Why this matters now

Kenya's October 2026 mandatory deadline is fast approaching. The gap between the taxonomy as published and the taxonomy as applied inside a credit decision is where deployment friction is most likely to concentrate. The following five gaps explain why.

2. Five Gaps the Taxonomy Does Not Close

Operationalising a taxonomy requires more than activity lists and alignment principles. It requires five components that do not exist in the KGFT as published. Each gap appears at a practical point in the credit chain.

2.1. No Activity-Level Evidence Register

The KGFT notes that alignment 'may require interpretation and assumptions to be made by the taxonomy user, which should be disclosed.' This is an acknowledgement that evidence requirements

KEY RISKS TO WATCH

EVIDENCE INCONSISTENCY —

No master evidence register exists. Two loan officers can reach different conclusions on an identical facility.

NO-TSC EXPOSURE —

24 of 99 activities have no Technical Screening Criteria. Alignment claims on these are vulnerable to supervisory challenge.

are not specified. No master evidence register exists. Banks cannot independently verify taxonomy claims without a common standard for what constitutes acceptable evidence per activity.

The consequence at the transaction level: a loan officer assessing a solar PV installation has no prescribed basis for deciding whether a commissioning certificate suffices, whether an energy audit is required, what period the audit must cover, or how to treat a borrower who can produce only a declaration. Two loan officers at the same bank may reach different conclusions on an identical facility.

REPORTING GAP —

The CRDF reporting template has no calculation methodology for the KGFT-aligned column, undermining cross-institution comparability.

SUPERVISORY BLIND SPOT —

No review mechanism exists yet. Institutions will respond inconsistently, producing unreliable market data ahead of October 2026.

This is not a minor operational difficulty. It is the foundational gap. Inconsistent evidence standards mean that taxonomy-aligned portfolios across Kenya's banking sector are not comparable, supervisory review cannot be conducted reliably, and disclosure metrics cannot be trusted.

2.2 No Decision Tools for Relationship Managers

The KGFT is structured as a policy framework. Its users are described as commercial banks and mortgage finance companies. But the actual first-line decision point in any lending transaction is the relationship manager reviewing a borrower's file during credit origination.

The KGFT gives relationship managers no screening form, no taxonomy alignment checklist, and no credit assessment annex. It provides principles and activity lists. It does not provide a mechanism for translating those principles into a credit assessment workflow.

SME lending, which constitutes the majority of Kenya's commercial banking book, requires simplified tools. An SME borrower financing a solar irrigation system cannot typically produce the documentation required for a sophisticated institutional green bond issuance. Without tools calibrated to the SME lending context, the taxonomy is, in practice, inaccessible to the segment of the banking book where most deployment will need to occur.

2.3. 24 Activities Without Technical Screening Criteria

Of the 99 activities listed in the KGFT Activity Register, 24 have no Technical Screening Criteria (TSC) in the current edition. Banks should be cautious about making taxonomy-alignment claims for these activities unless further guidance or defensible interim treatment is available. The 24 activities include batteries, nature-based solutions, water monitoring, flood defence, biomass and biogas manufacture, aviation, and several manufacturing sub-categories.

This is a significant operational constraint. Several of the no-TSC activities are commercially relevant to Kenya's banking book, particularly in the SME and infrastructure segments. Where banks attempt to apply the taxonomy to these activities using imported criteria from the EU Taxonomy or other frameworks, they

face a consistency problem: criteria not sourced from the KGFT cannot be relied upon as the basis for a supervisory-compliant alignment claim.

The no-TSC gap also creates a disclosure risk. A bank that classifies a no-TSC activity as taxonomy-aligned in its CRDF reporting is making a claim that cannot be verified against any threshold stated in the governing framework. That claim is vulnerable to supervisory challenge.

2.4. No Supervisory Review Mechanism

CBK's role as taxonomy custodian is defined. The mandatory compliance date is stated. What is not yet defined is the supervisory review mechanism: how CBK will assess a bank's taxonomy-aligned portfolio, what evidence it will expect to review, how inconsistent TSC applications will be identified across institutions, and what the consequences of a weak alignment claim are.

Without a supervisory review note or guidance, banks face a structural incentive problem. Compliance with a framework that lacks an inspection mechanism results in inconsistent behaviour. Some institutions will invest in evidence infrastructure. Others will apply the taxonomy conservatively, exclude activities where evidence collection is uncertain, and underreport. Others may overstate alignment. The spread of these responses will produce a dataset that cannot be used to assess real green lending behaviour across Kenya's financial sector.

2.5. The Reporting Template Does Not Define How to Calculate What It Asks Banks to Report

CBK has published a standardised Climate-Related Risk Reporting Template alongside the CRDF. The template includes a transition risk exposure table with a dedicated column for KGFT-aligned gross carrying amounts by sector, metrics and targets for green loan disbursements and portfolio share, and an alignment targets tab tracking 2030 sector-level objectives. The reporting structure exists.

The template does not provide a calculation methodology. The KGFT alignment column in the transition risk table is a blank input field. The template does not define what evidence standard supports an entry in that column, how a bank should determine whether a gross carrying amount qualifies as taxonomy-aligned before recording it, or how CBK will assess the consistency of entries across institutions. The CRDF identifies financed emissions as a priority metric and recommends the Partnership for Carbon Accounting Financials methodology for that calculation. No equivalent methodology guidance exists for the taxonomy alignment column.

The consequence is the same regardless of whether the template exists: if each institution applies its own interpretation of what qualifies as a taxonomy-aligned exposure before entering a figure, the resulting dataset cannot support reliable cross-institution comparison. A reporting structure without a defined input standard produces comparability problems at the aggregation stage, not at the disclosure stage. That is where the gap now sits.

3. The Transaction-Level Bottleneck

The stall point in KGFT operationalisation is not at the policy layer. The taxonomy has a coherent architecture. The stall is at the transaction layer: the moment when a relationship manager reviews a borrower's documents and decides whether an activity meets alignment requirements.

That decision requires four things the taxonomy does not supply:

- **Evidence standard —** an activity-level evidence standard that specifies what documents are acceptable, at what tier, and over what reference period.
- **Decision tool —** a decision tool structured for first-line banking use, not policy documentation.
- **Judgement treatment —** a defined treatment for activities where quantitative thresholds do not exist and assessor judgement is required.
- **Reviewer sign-off —** a reviewer sign-off process that separates the origination function from the alignment determination.

The financial consequence of this stall is not neutral. Institutions that cannot apply the taxonomy consistently will not build taxonomy-aligned lending portfolios of the quality required for DFI co-lending or green bond issuance. DFIs structuring credit lines through Kenyan commercial banks will face uncertainty about their pipelines. The October 2026 compliance deadline will arrive as the banking sector is aware of the framework, but has not yet been able to apply it at the transaction level.

A taxonomy that cannot be used inside a credit decision does not change credit decisions. The October 2026 deadline makes that gap financially material for every institution building a green lending portfolio now.

4. What Operationalisation Actually Requires

Building the missing layer between the KGFT as published and the KGFT as applied inside a lending decision requires five components. These are not refinements to the taxonomy. They are the operational infrastructure that the taxonomy needs to function in a bank.

4.1 Activity-Level Evidence Frameworks

For each of the 75 TSC-assessable activities, an evidence framework should define the:

- **Minimum standard —** minimum acceptable evidence standard;
- **Evidence types —** types of evidence that may be used to support an alignment claim;
- **Reliability —** relative reliability of different evidence sources;
- **Reference period —** acceptable reference period for each evidence type; and
- **Proxy data —** treatment of proxy data when direct evidence is unavailable.

Without these, evidence assessment at the transaction level is inconsistent and supervisory review is arbitrary.

4.2 SME Lending Decision Tools

A relationship manager completing a credit assessment needs three tools:

- **Alignment checklist —** a taxonomy alignment checklist structured around the seven-step alignment process,
- **Screening form —** an SME screening form that captures activity match, TSC status, evidence pack reference, and reviewer sign-off, and
- **Credit assessment annex —** a credit assessment annex that records the formal alignment determination.

These tools should be completable during normal credit origination, not require specialist environmental expertise, and produce an auditable record.

4.3 Interim Logic for No-TSC Activities

For the 24 activities without TSC, banks need a governance-approved methodology for applying assessor judgement. The methodology should reference a disclosed criteria source, require consistent application across similar activities in the portfolio, document the rationale for each determination, and require senior sign-off. Without this, no-TSC activities cannot be considered aligned, which represents a significant gap in the taxonomy's coverage.

4.4 DNSH and MSS Evidence Checklists

DNSH and MSS are not procedural boxes. Each represents a substantive review requirement. A DNSH evidence checklist should translate the KGFT's DNSH criteria for each activity into verifiable documentary requirements, specifying the evidence needed for each of the five applicable environmental objectives.

An MSS evidence checklist should reference specific Kenyan legislation, including the Employment Act 2007 and the Occupational Safety and Health Act 2007, with practical document requirements by sector and borrower type.

4.5 A Supervisory Review Framework

A supervisory review framework should define the four-gate review sequence (eligibility, TSC, DNSH, MSS), the evidence quality tests applied at each gate, the escalation triggers that suspend or reverse an alignment claim, the consistency checks applied across the portfolio, and the institutional rating categories that reflect the overall quality of a bank's alignment determination process. This framework allows CBK to conduct structured oversight rather than ad hoc review and gives banks a clear standard to build their processes toward.

4.6 Operationalisation Is a Second Phase, Not an Afterthought

This type of operational build is already visible in Kenya. KCB's GCF-backed FP292 facility includes support to strengthen KCB's climate impact and risk assessment frameworks and build capacity among loan officers, suppliers, and beneficiaries. The lesson is clear: green capital needs internal bank systems, evidence processes, and staff capacity before it can move reliably.

South Africa's experience reinforces the point. Its Green Finance Taxonomy was published in April 2022, but implementation efforts continued after publication through practical application, industry engagement, and supporting guidance. Publication was not the end of the process. Classification frameworks often require a second phase focused on operational adoption, evidence systems, reporting practices, and institutional capacity.

For Kenya, the key question is whether the operationalisation phase will produce practical tools that banks can use in lending, evidence review, reporting, and supervisory processes.

5. Practitioner Positions Before October 2026

The October 2026 mandatory compliance deadline is the most immediate forcing function. The practical positions for each actor type follow from the gaps described above.

5.1 Commercial Bank Credit and Sustainability Teams

Build the translation layer now, not at the compliance deadline. That means developing an activity-level evidence standard for the most commercially relevant activities in your lending book and creating relationship manager tools that enable consistent taxonomy assessment during credit origination. Also, establish a reviewer sign-off process that separates the originating function from the alignment determination. Institutions that wait for official CBK guidance before building their processes will arrive at October 2026 with a framework they understand but cannot apply.

5.2 DFI Co-Lending Partners

Assess your pipeline bank's taxonomy readiness before committing co-lending capital. A commercial bank that has not yet built activity-level evidence standards and decision tools cannot reliably produce taxonomy-aligned portfolios at scale. That creates a pipeline quality risk for any DFI structuring a credit line that depends on the receiving bank's ability to identify, assess, and report taxonomy-aligned borrowers. The question is not whether your partner bank knows what the KGFT says. It is whether they can apply it inside a credit decision and produce a reviewable evidence pack.

5.3 CBK Supervisory Teams

The supervisory review mechanism determines whether the October 2026 mandatory compliance date produces reliable market data or a spread of inconsistent claims. A supervisory review framework that defines evidence expectations, assessment gates, escalation triggers, and institutional rating categories provides banks with a clear target and the supervisory function with a structured basis for oversight. Issuing this guidance before the compliance deadline, rather than after it, is the intervention that most directly reduces the risk of inconsistent taxonomy application across the sector.

6. The Question That Remains

Kenya now has a classification framework, a disclosure framework, and a mandatory compliance deadline. What it does not yet have is evidence that any of these have changed a single lending decision at the loan officer level.

If a relationship manager at a Kenyan commercial bank opened a client file today for a borrower applying for a loan to install solar irrigation equipment, would they know what evidence to request, how to assess it, and whether the result would stand up to supervisory review? The real answer lies in whether the taxonomy can guide an actual credit decision, not just support policy and reporting.

ABOUT THIS PUBLICATION

Climate Capital Insights publishes practitioner-focused analysis on climate policy, sustainable finance systems, and capital allocation conditions across East Africa. This note is intended for bank credit and sustainability teams, DFI co-lending partners, and supervisors assessing taxonomy-aligned lending ahead of Kenya's October 2026 compliance deadline.



R. Andia
CLIMATE FINANCE & MARKETS ANALYST
Analysing climate policy, capital flows, investment risk, and capital allocation conditions across East Africa.

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