



Green finance **assessment of** Makueni County



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Green finance assessment of Makueni county



April 2024

Financial Sector Deepening Kenya (FSD Kenya) is an independent trust dedicated to the achievement of a financial system that delivers value for a green and inclusive digital economy while improving financial health and capability for women and micro and small enterprises (MSEs).

FSD Kenya works closely with the public sector, the financial services industry, and other partners to develop financial solutions that better address the real-world challenges that low-income households, micro and small enterprises, and underserved groups such as women and youth face.

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1 Project background

The Financial Sector Deepening Kenya (FSD Kenya) is an independent trust dedicated to the achievement of a financial system that delivers value for a green and inclusive digital economy, while improving the financial health and capabilities of women and micro and small enterprises. FSD Kenya has a green finance programme dedicated to supporting the development of a green finance ecosystem and a greener real economy that is resilient to climatic and other environmental shocks, resource efficient and generates green investment, employment, and income generation opportunities for low-income Kenyans.

This **county green finance assessment** is related to FSD Kenya's mission to support the development of an inclusive green finance ecosystem in Kenya. The 2010 Kenyan Constitution devolved important natural resource and environment-related sectors such as agriculture, water provision and transport to the counties. Thus, counties have a pertinent role to play in Kenya's sustainable development agenda which can only be realised if counties have the requisite capacities and capabilities including financial resources. Yet, counties face a funding gap, with most, if not all, of them fully reliant on transfers from the National Treasury as their own-source revenue remains very low.

Green finance is defined as structured financial activity created to ensure a better environmental outcome. Green finance includes climate finance but is not limited to it as it encompasses a wider range of other environmental objectives, such as industrial pollution control, water sanitation, biodiversity protection and environmental benefits.

Green finance instruments such as green county bonds, present an opportunity for counties to generate resources for the much-needed development of county infrastructure such as water piping, county roads and the development of agriculture, in a green and climate-resilient manner. While not yet tested locally, their widespread application in other markets as well as the recent approval by the National Treasury for the Laikipia County Infrastructure Bond illustrate their potential.

Project partners

This project was initiated and completed with the approval and partnership of The National Treasury, Climate Finance and Green Economy Unit. The Unit provides technical support to The National Treasury & Economic Planning on all matters relating to green and climate financing, and green growth. The Capital Markets Authority was the regulatory partner on this project, providing insight and leadership on green finance instruments, processes, and structures in the capital markets applicable to county governments, including related policy and legislation requirements. The Capital Markets Authority is an independent public agency, under the The National Treasury & Economic Planning and has a twin mandate of regulating and facilitating the development of capital markets in Kenya.

FSD Kenya commissioned Agosto & Co. Limited as the lead consultant for this project. Agosto & Co. is registered as a credit rating agency by the Kenyan and Rwandan Capital Markets Authorities and the Securities Exchange Commission in Nigeria. Agosto & Co. is also certified as an approved verifier by the Climate Bond Standards Board as the first company of African origin to have the capabilities to perform verification of green bonds, projects, and assets in Africa.

The Adaptation (ADA) Consortium engaged county government and stakeholders to provide on-site coordination, site visit and meeting arrangements for the project. ADA consortium is a non-profit that supports county governments to mainstream climate change into development and planning. The Nairobi Securities Exchange (NSE) was the private sector partner in the project. The NSE operates under the jurisdiction of the Capital Markets Authority of Kenya and is a full member of the World Federation of Exchange, a founder member of the African Securities Exchanges Association (ASEA) and the East African Securities Exchanges Association (EASEA), and member of the Association of Futures Market and is a partner exchange in the United Nations-led SSE initiative.

The County Government of Makueni was one of the 10 county governments that provided valuable insight on the dynamics, information and opportunities in their county on green finance.

2

Project objectives

This project assessed the potential for counties to access and apply to the green finance market for the development of green activities and consisted of the following assessments:

- **Macroeconomic and fiscal assessment:** County fiscal performance (historical and projected), strengths, challenges, and ability to take on (additional) debt including the consideration of potential revenue generation sources.
- **Credit risk assessment:** Estimate the county government's relative likelihood of defaulting on its obligations from capital raising initiatives- including a shadow credit rating.
- **Green asset and activity assessment:** Availability of green investment opportunities in the selected counties.
- **Green finance capability Assessment:** County government skills and ability to manage green financial instruments and related projects.

The Green Finance Market is defined as the pool of funding constituting a range of green financial instruments that meet the objectives of green finance such as Government Grants; development grants; guarantee funds; subsidies; concessionary loans; commercial loans; results-based finance; blended finance; Green Bonds etc.

3

Macroeconomic and fiscal assessment of Makueni County

3.1 Macroeconomic analysis

Makueni County (“the County”) is situated in the South Eastern part of the country and borders the following counties: Machakos to the North, Kitui to the East, Taita Taveta to the South and Kajiado to the West. Makueni County covers an area of 8,170 square kilometres and lies in the arid and semi-arid zones of the Eastern region of the country. The major physical features in the County

include the volcanic Chyullu hills which lie along the South West border of the County in the Kibwezi East and West sub-counties; Mbooni hills in the Mbooni sub-county and Kilungu and luani hills in Kaiti sub-county. Other features include Makongo forest and its scenic view, Makuli Forest and Nzaii hill. The County co-hosts three of the world’s renowned wildlife habitats; Tsavo West, Tsavo East, and the Chyulu National Parks.



Figure 1: Map of Kenya - Makueni County

Source: e-Limu

Makueni County is also a member of the South Eastern Kenya Economic Bloc (SEKEB), following the enactment of the SEKEB Act in 2022, which aims to attract regional funding and investment opportunities to Makueni County and the other two counties of Machakos and Kitui.

The County is divided into six sub-counties which are also the parliamentary constituencies. The six sub-counties are further subdivided into 30 assembly wards as highlighted below.

Table 1: Sub-county and assembly wards of Makueni County

S/N	Sub-County	Assembly Wards
1	Makueni	Nzaui/Kalamba, Muvau, Kathonzweni, Mavindini, Kitise/Kithuki, Wote, Mbitini
2	Kilome	Kiima, Kiu/Kalanzoni, Mukaa, Kasikeu
3	Kibwezi West	Makindu, Kikumbulyu North, Kikumbulyu South, Nguumo, Nguu/Masumba, Emali/Mulala
4	Kibwezi East	Masongaleni, Mtito Andei, Thange, Ivingoni
5	Kaiti	Kee, Kilungu, Ilima, Ukia
6	Mbooni	Kisau/Kiteta, Kithungo, Kalawa, Kako/Waia, Mbooni, Tulimani

Source: County Website

3.1.1 Population size and structure

Makueni County is predominantly inhabited by the Akamba community which forms approximately 97% of the total number of inhabitants. According to the 2019

Kenya Population and Housing Census, the population of Makueni County was 987,653 with 497,942 (50.4%) females, 489,691 (49.6%) males and 20 intersex persons. The population density stood at 121 people per Km², with an annual growth rate of 1.1%.

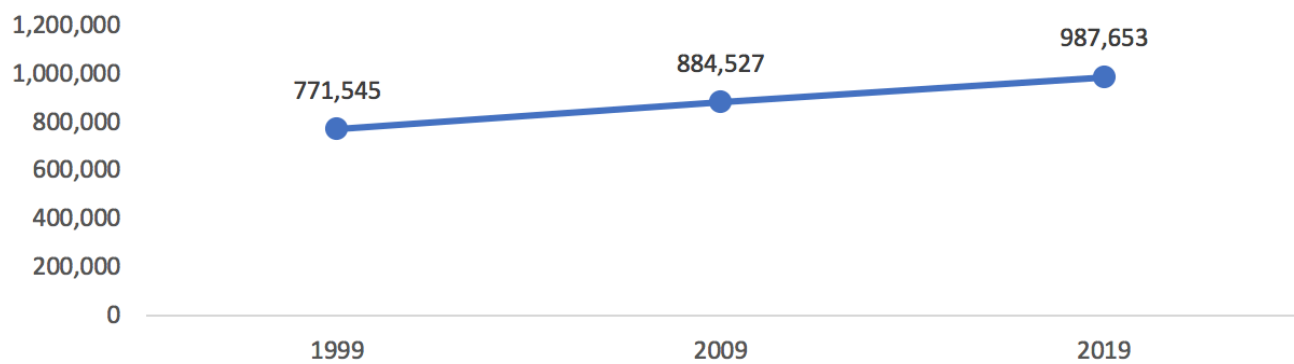


Figure 2: Total population in Makueni

Source: Kenya National Bureau of Statistics

The youth (18-35 years) account for 27 percent¹ of the total population hence the need to plan for the current youthful population and the foreseen population growth which will push the demand for social services and food higher.

3.1.2 Level of employment and economic diversification

Makueni County is famous for horticulture, with agriculture being the predominant economic activity in the County. Mangoes make the key value chain in the sector, with Makueni County producing 245,345 metric tonnes of mangoes at the end of FY 2022/23 and targeting to produce 295,496 metric tonnes in FY 2023/24². With a short harvest season from November to March, more than 40% of production goes to waste due to processing and demand constraints. The establishment of the Makueni Fruit Processing plant in Kalamba has boosted

the mango industry by reducing post-harvest losses for farmers in the County by 3,789 metric tonnes (valued at Ksh 78,234,240). It is estimated that agricultural-related activities account for 78% of total household income in Makueni, while non-agricultural employment accounts for 22%, consisting of wage employment (10%), urban self-employment (4%), and rural self-employment (8%)³. According to the Kenya Bureau of Statistics, the County's unemployment rate among employable youth is high, standing at around 37.1%. As a result of the high unemployment, among other factors, Makueni County has relatively high levels of poverty (34.8%)⁴.

Other economic activities in the County include beekeeping, small-scale trade, dairy farming and limited coffee growing, ecotourism and commercial businesses. The fertile upper part of the County, which experiences a higher average rainfall of 800 mm-1200 mm, has both natural and man-made forests and is suitable for dairy

¹ 2019, Kenya Population and Housing Census

² 2023 Makueni County Fiscal Strategy Paper

³ Makueni County Vision 2025

⁴ Kenya Integrated Household Budget Survey 2015/2016

farming. The lower side, on the other hand, receives rainfall ranging from 300mm to 400mm and hardly sustains the major food farming. This means livestock rearing remains the common viable economic activity being undertaken by the people in the lower region.

The County is largely arid and semi-arid and usually prone to frequent droughts and experiences only two rainy seasons, the long rains occurring in March /April while the short rains occur in November/December. Over time, Makueni county has experienced climate change and variability which includes insufficient rain and

prolonged dry spells among others. Human activities such as farming on hilltops, charcoal burning, and sand harvesting have contributed significantly to this adverse climate-related situation.

3.1.3 Macroeconomic variables

Makueni County contributes 1.1% of the national GDP annually according to the Gross County Product (GCP) 2023 report. The County's economy slightly declined in 2022 to Kshs 120.5 billion from Kshs 123.6 in 2021.

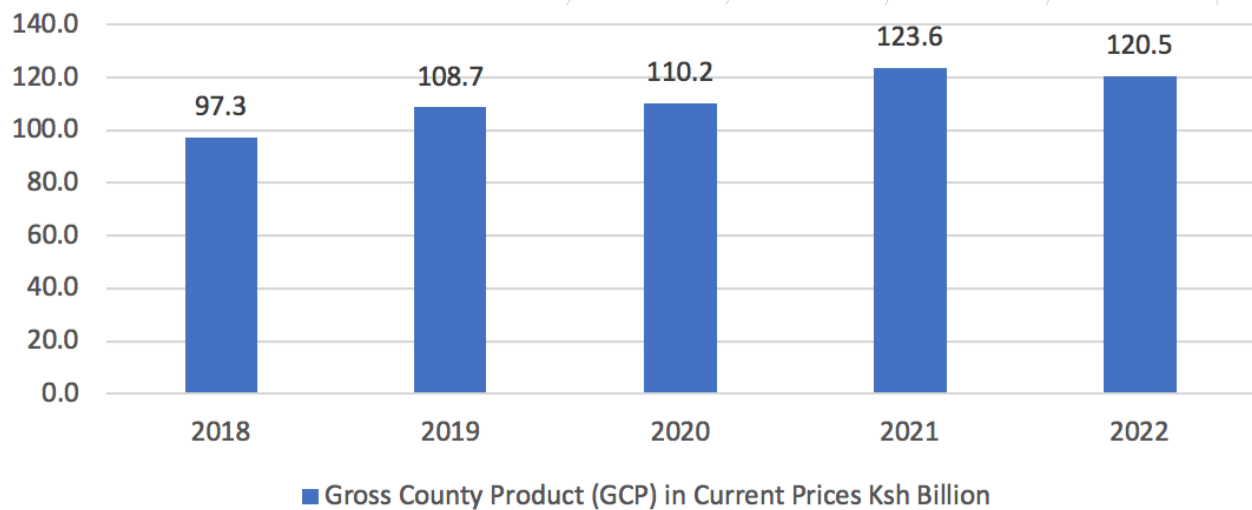


Figure 3: Makueni Gross County Product (GCP) in current prices

Source: Gross County Product 2023 Report, Kenya National Bureau of Statistics (KNBS)

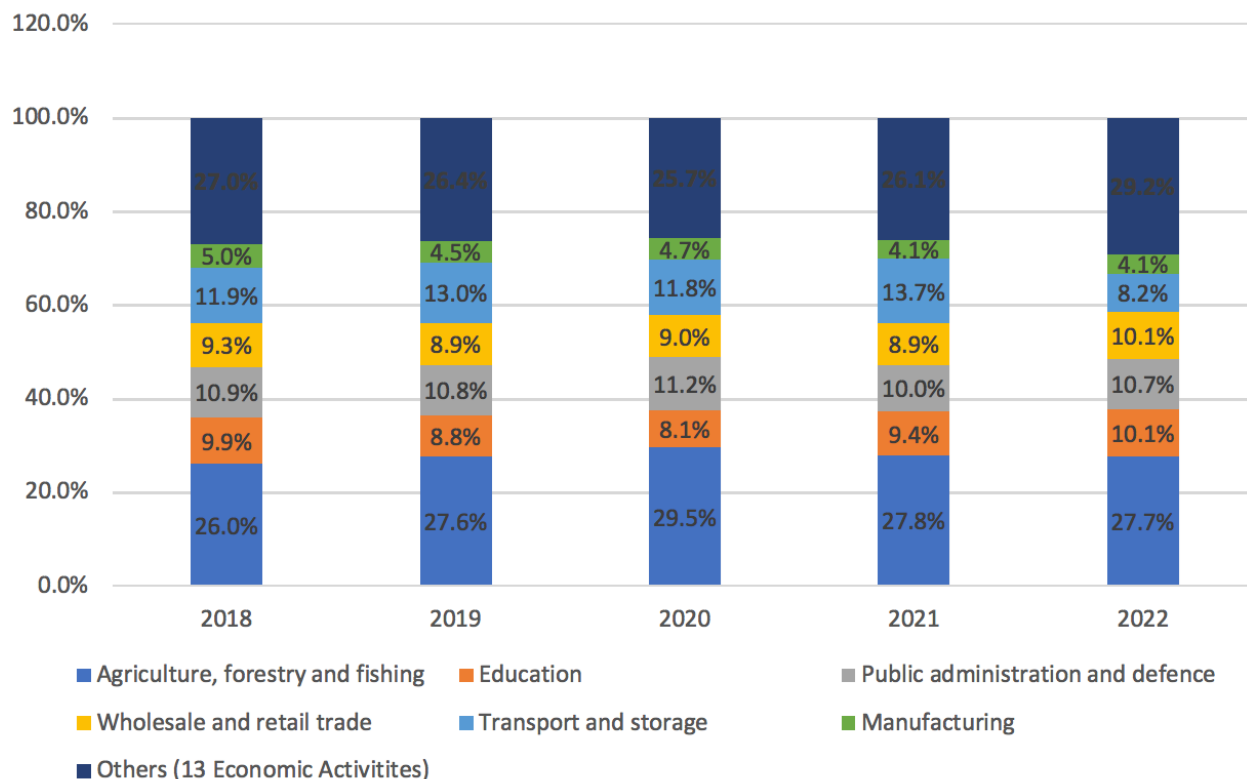


Figure 4: Gross County Product contribution by economic activity

Source: Gross County Product 2023 Report, KNBS

Makueni County's economy is expected to accelerate due to the implementation of growth strategies such as revamping and boosting agricultural production and value addition through government and private investment, which will accelerate economic growth despite the depressed rainfall amounts witnessed in the lower parts of the County. Moreover, funding MSMEs will boost growth in; the accommodation and food sector; transport and storage sector as well as wholesale and retail trade.

Key sectoral analysis

Agriculture

The agricultural sector contributes 27.7% towards the Gross County Product. In 2022, agricultural production fell as a result of low rainfall during the March to May long rains season and a delay in the short rains. This also negatively impacted the condition of livestock and fruit trees, both of which are agricultural assets in Makueni County. Generally, inconsistent rainfall patterns have led to crop failures and reduced the County's ability to produce food sustainably over the past six seasons. Nonetheless, the October to December season of 2023 saw significant rainfall, raising the prospects for a bumper harvest that is expected to restore food security in the County. Efforts to modernize and improve agricultural practices in the County, including the use of modern farming techniques, irrigation systems, and improved seeds and fertilizers, will boost productivity and yields, resulting in higher household income and economic growth.

Public administration and defence

Public administration and defence is the County's second-largest sector after agriculture, accounting for 10.7% of the GCP in 2022. The sector is a critical pillar of the Makueni County economy because it provides county leadership, oversight, and policy direction; prudent public finance management for transparency and accountability; coordinates sectoral development planning; supports coordination of Government activities; ensures effective and efficient Public Service; youth empowerment; promotes liaison relations, wage bill management, and the development of a solid legislative and regulatory framework.

Wholesale and retail trade

The wholesale and retail trade sector contributed 10.1% to Makueni County's GCP. The sector is predominantly comprised of small and medium-sized enterprises and was the third largest sector contributing Kshs 12.1 billion to the 2022 GCP. This sector also contributes to the County's revenue stream through business taxes, fees, and levies. The sector has gradually recovered from the effects of COVID-19 and is expected to grow over the year. Political unrest, including street protests, disrupted business operations from March to July 2023. However, a political truce that led to dialogue later restored stability to the business environment, preventing further

disruptions. Government effort to improve market and urban infrastructure is expected to boost SME development, ultimately leading to job creation, income generation, poverty reduction, and overall economic growth in the County.

Education and training

Education and training accounted for 10.1% of the County's GCP in 2022. To make up for the lost time in 2020 due to severe disruption of the school calendar following the COVID-19 containment measures, the sector saw a significant increase in activity in 2021 and 2022. Despite the inability of parents to provide financial support through prompt payment of school fees due to lower incomes, government spending on this sector through capitation, provision of Competency Based Curriculum (CBC) compliant infrastructure, and issuance of bursaries led to growth of the sector. In the medium term, the sector is expected to improve access to quality education through the capitation program for ECDE Centers and County Technical Training Institutes (CTTIs), as well as youth empowerment through talent development, training, sports and recreation.

Transport and storage

Transportation and storage sector accounted for 8.2% of the GCP in 2022. The lifting of the COVID-19 restrictions in 2021 resulted in sector growth because the passenger subsector was able to operate at full capacity. Interventions aimed at improving County roads are expected to increase the movement of goods and services within the County. The sector remained robust in 2022 and 2023 as demand for goods and services produced in the County increased in other parts of the country and vice versa.

Manufacturing

Manufacturing accounted for 4.1% of the County's GCP⁵. The County is endowed with raw materials such as agricultural produce, sisal and mines which carry huge potential for industrial revolution in Makueni. The government has maintained its investment in agro-processing factories such as mango, pulses, milk and the sisal cottage industry. The main raw materials consumed by agro-processors in the County are mango, milk, slaughtered animals and maize. The government intends to enhance industrial growth by promoting value addition and innovations in agro-processing by supporting the cottage industries and developing and reviewing policies to harness industrial investment through public-private partnership which is expected to boost the manufacturing sector in the short to medium term.

3.1.4 Level of infrastructure

A society's socioeconomic status and overall well-being are heavily reliant on access to stable, dependable, and affordable infrastructure and services. The Makueni classified road network⁶ has grown by 98% to 15,573 kilometers in 2022 from 7,867.1 kilometers in 2016⁷.

⁵ 2023 Gross County Product

⁶ The road network classification is defined by the Kenya Roads Board Classification of 2016 which classifies roads according to the functional criteria related to administrative level of centers the road connects

⁷ Kenya Roads Board register and 2024 Makueni County Fiscal Strategy Paper

The County has 933.1 kilometers of tarmacked roads, accounting for 6% of the total road network; 30% of these roads are gravel, while over 55% are earth. The growth in the road network can be attributed to the comprehensive approach taken by the County government, encompassing the opening and grading of roads, upgrading segments to bitumen and gravel standards, and the development of 230 meters of non-motorised transport systems.

To promote a 24-hour economy and improve security throughout the County, the government, in collaboration with other energy sector agencies, has increased the electricity access rate to 25% in 2022 from 5% in 2018⁸. This was largely achieved through collaboration with national government agencies such as Rural Electrification and Renewable Energy Corporation (REREC) and Kenya Power. The County government continued to light up towns and market centres by installing flood lights, street lights, and high mast floodlights in FY 2022/23. Wote Municipality installed a total of 27 high mast flood lights, while 16 and 12 market sheds were connected to solar lighting and the grid respectively, to increase trading hours.

In Makueni County, there are five commercial banks. The bank agents located in the County's principal municipalities help the banks in turn. Additionally, four microfinance organizations and one community bank operate in the larger cities. The County has a small number of SACCOS, the largest of which is a SACCO for teachers.

The County is home to three satellite campuses of universities, 13 technical and vocational colleges, 422 secondary schools, 1,046 primary schools and 1,398 pre-primary schools⁹. The large number of pupils leaving secondary schools cannot be accommodated by public or private institutions. A medical college is also absent in the County, which would help to develop experts in this field.

The materials used in construction have been used to categorize homes in the County. Only 2.6% of the homes have stone walls, while 72.6% are surrounded by brick or blocks. Because of the high rates of poverty, the majority of the population (53.5%) live in homes with ground floors. Corrugated iron roofing accounts for 86.6% of all home roofs, while grass roofs account for 19.4%.

3.2 Fiscal assessment

3.2.1 Governance structure

Makueni County Government consists of two arms, namely the County Assembly and the County Executive. The County Government's executive arm consists of the Governor, the Deputy Governor, the County Executive Committee Members and the County Public Service. The Governor appoints County Executive Committee members (CECM) with the approval of the County Assembly. Under Section 5 of the County Government Act 2012, the devolved functions of the county government are county legislation in accordance with article 185 of the 2010 Kenya Constitution which confers the county's legislative authority to the County Assembly. The second task is exercising executive functions per Article 183 of

the Constitution which provides for the functions of the county executive committee. The functions are:

- a) Implementation of county legislation;
- b) implementation of national legislation within the county if the legislation so requires;
- c) management and coordination of the functions of the county administration and its departments; and
- d) performance of any other functions conferred by the Constitution or national legislation.

A county executive committee can also prepare proposed legislation for consideration by the county assembly. The committee provides the assembly with full and regular reports on matters relating to the county. Under the Fourth Schedule of the 2010 Constitution of Kenya, the devolved functions performed by county governments are:

1. Agriculture, including crop and animal husbandry, livestock sale yards, county abattoirs (slaughterhouses), plant and animal disease control and fisheries.
2. County health services, including, in particular – county health facilities and pharmacies, ambulance services, promotion of primary health care, licensing and control of undertakings that sell food to the public, veterinary services (excluding regulation of the profession which is a national government function), cemeteries, funeral parlours and crematoria, and refuse removal, refuse dumps and solid waste disposal.
3. Control of air pollution, noise pollution, other public nuisances and outdoor advertising.
4. Cultural activities, public entertainment and public amenities, including – betting, casinos and other forms of gambling, racing, liquor licensing, cinemas, video shows and hiring, libraries, museums, sports and cultural activities and facilities, and county parks, beaches and recreation facilities.
5. County transport, including – County roads (Class D, E and Unclassified Roads), street lighting, traffic and parking, public road transport, and ferries and harbours (excluding the regulation of international and national shipping and matters related thereto).
6. Animal control and welfare, including – licensing of dogs, and facilities for the accommodation, care and burial of animals.
7. Trade development and regulation, including – markets, trade licences (excluding regulation of professions), fair trading practices, local tourism, and cooperative societies.
8. County planning and development, including – statistics, land survey and mapping, boundaries and fencing, housing, and electricity and gas reticulation and energy regulation.
9. Education – only pre-primary education (ECD), village polytechnics, home craft centres and childcare facilities.
10. Implementation of specific national government policies on natural resources and environmental conservation, including soil

⁸ Makueni County Integrated Development Plan 2023-2027

⁹ Makueni County Statistical Abstract, 2023

- and water conservation, and forestry.
- 11. County public works and services, including – stormwater management systems in built-up areas, and water and sanitation services.
- 12. Firefighting services and disaster management.
- 13. Control of drugs and pornography.
- 14. Ensuring and coordinating the participation

of communities and locations in governance at the local level and assisting communities and locations to develop the administrative capacity for the effective exercise of the functions and powers and participation in governance at the local level.

The table below highlights the key personnel in the executive arm of Makueni County:

Table 2: County Executives in Makueni

	Name	Designation
1	H.E Mutula Kilonzo Junior, CBS	Governor
2	H.E Lucy Mulili	Deputy Governor
3	Dr. Sonnia Nzilani Musyoka	CECM - Trade, Marketing, Industry, Culture & Tourism
4	Eng. Sebastian Kyoni	CECM - Infrastructure, Transport, Public Works and Energy
5	Ms. Damaris Mumo Kavoi	CECM - Finance, Planning, Budget and Revenue
6	Eng. John Kasyoki Kieti	CECM - Water and Sanitation
7	Ms. Elizabeth Ndunge Muli	CECM - ICT, Education & Internship
8	Dr. Paul Musila	CECM - Health Services
9	Ms. Joyce Mutua	CECM - Agriculture, Irrigation, Livestock, Fisheries & Cooperative Development
10	Mr. Nicholas Masila Nzioka	CECM - Lands, Urban Planning & Development, Environment and Climate Change
11	Mr. Peter Mumo Nyamai	CECM - Gender, Children, Youth, Sports & Social Service
12	Mr. Japheth Musyoka Mang'oka	CECM - Devolution, Public Service, Public Participation & Special Programmes
13	Mr. Stanley Mutinda Nthiwa	County Attorney

Source: Makueni County Website

The County Assembly has legislative authority over county laws, general oversight of the County Government and people representation. It is made up of Members of County Assembly (MCAs) elected from the county's various Assembly Wards, nominated MCAs representing special interests such as persons with disabilities and

youth as prescribed by an Act of Parliament, and the Speaker, who serves as an ex-officio member. The County Assembly is led by the Speaker, who also serves as Chairman of the County Assembly Service Board. The Makueni County Assembly is made up of the following members:

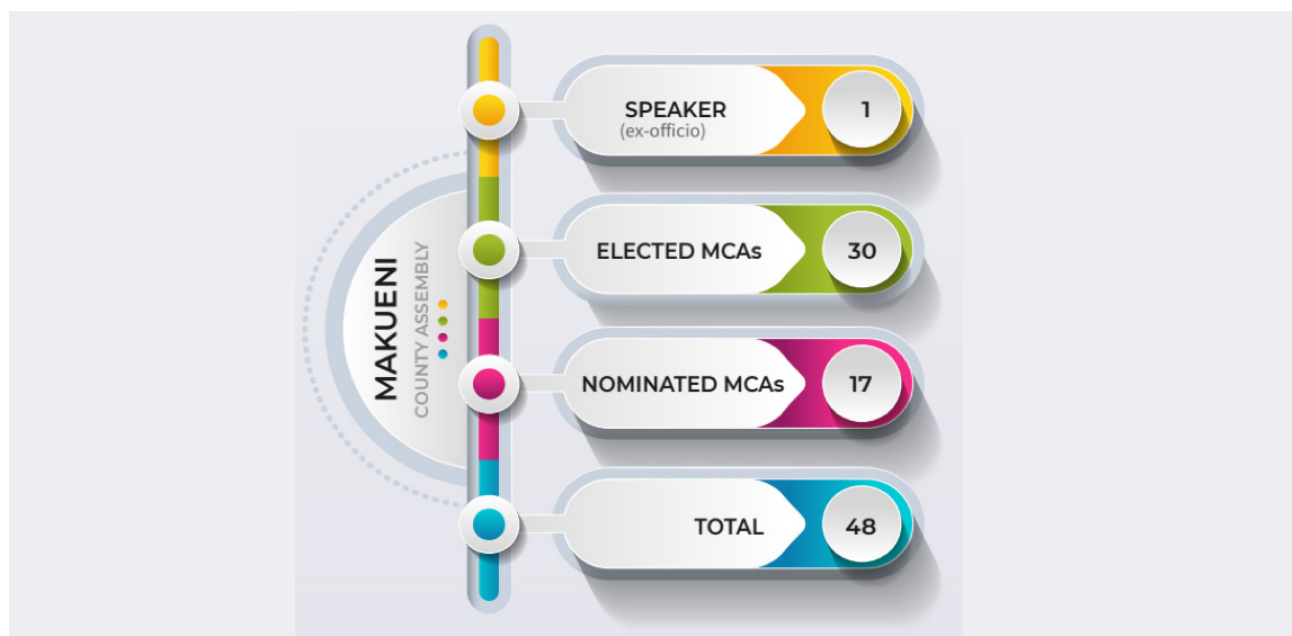


Figure 5: Makueni County Assembly composition

Source: County Statistical Abstract, 2021

Table 3 below outlines the names of the elected County Assembly members and the Wards they represent:

Table 3: Elected Members of the Makueni County Assembly 2022

	Elected Members of County Assembly (MCA)	Ward
1	Hon. Francis Mulwa Mwanja	Mtito Andei Ward
2	Hon. Kyalo Mumo	Tulimani Ward
3	Hon. Jades Kalunda Muema	Kikumbulyu South Ward
4	Hon. Bryan Kyalo Nzoka	Masongaleni Ward
5	Hon. Cosmas Mutunga Kaleli	Emali/Mulala Ward
6	Hon. Daniel Kivuva Musau	Nguu/Masumba Ward
7	Hon. Darius Kioko Mainga	Kiteta/Kisau Ward
8	Hon. Dennis Mutinda Musyoka	Kako/Waia Ward
9	Hon. Elizabeth Kawembe Mutinda	Muvau/Kikuumini Ward
10	Hon. Erick Musyoki Katumo	Thange Ward
11	Hon. Felix Mateso Boniface	Nziu/Wote Ward
12	Hon. Benard Tivu Mutua	Mbitini Ward
13	Hon. Francis Munyao Mutuku	Nzaui/Kilili/Kalamba Ward
14	Hon. Harrison Mwanzia Mutie	Ivingoni/Nzambani Ward
15	Hon. Jackson Muema Mbalu	Kikumbulyu North Ward
16	Hon. Jackson Ndolo Kimunyi	Ukia Ward
17	Hon. Benedict Kennedy Maneno	Kathonzweni Ward
18	Hon. Jonathan Musyoki Muthoka	Ilima Ward
19	Hon. Jonathan Muunda Kimongo	Mavindini Ward
20	Hon. Joseph Matheka Mbindyo	Kilungu Ward
21	Hon. Joseph Muthini Muema	Mukaa Ward
22	Hon. Justus Mwanzia Muema	KiimaKiu/Kalanzoni Ward
23	Hon. Kisungi Kyalo Mulinge Wa Katete	Kithungo/Kitundu Ward
24	Hon. Alexander Masila	Mbooni Ward
25	Hon. Meshack Kalii Ndambuki	Kalawa Ward
26	Hon. Meshack Muthiani Mwangangi	Nguumo Ward
27	Hon. Reuben Musau Kavai	Kasikeu Ward
28	Hon. Sebastian Muli Munguti	Kitise/Kithuki Ward
29	Hon. Stephen Nzivo Kilonzo	Makindu Ward
30	Hon. Urbanus Manzu Yulu	Kee Ward

Source: Makueni County Assembly Website

3.2.2 Finances of the Makueni County Government

Makueni County recorded a total revenue of Ksh.10.46 billion at the end of the fiscal year 2022/23, a 4.5% growth from the previous period of Ksh10.01 billion. During the review period, the County received Kshs.8.13 billion (77.8%) as an equitable share of national revenue,

Kshs.891.60 million (8.5%) in own-source revenue (OSR), Kshs.330.38 million (3.2%) in conditional grants, and a cash balance of Kshs.1.10 billion (10.5%) from FY 2021/22. Equitable share of revenue raised nationally continues to account for the largest source of revenue for Makueni County, accounting for an average of 85% annually in the past five years. The review period's own source revenue represented a 19% increase from the previous period's revenue of Ksh.749.41 million.

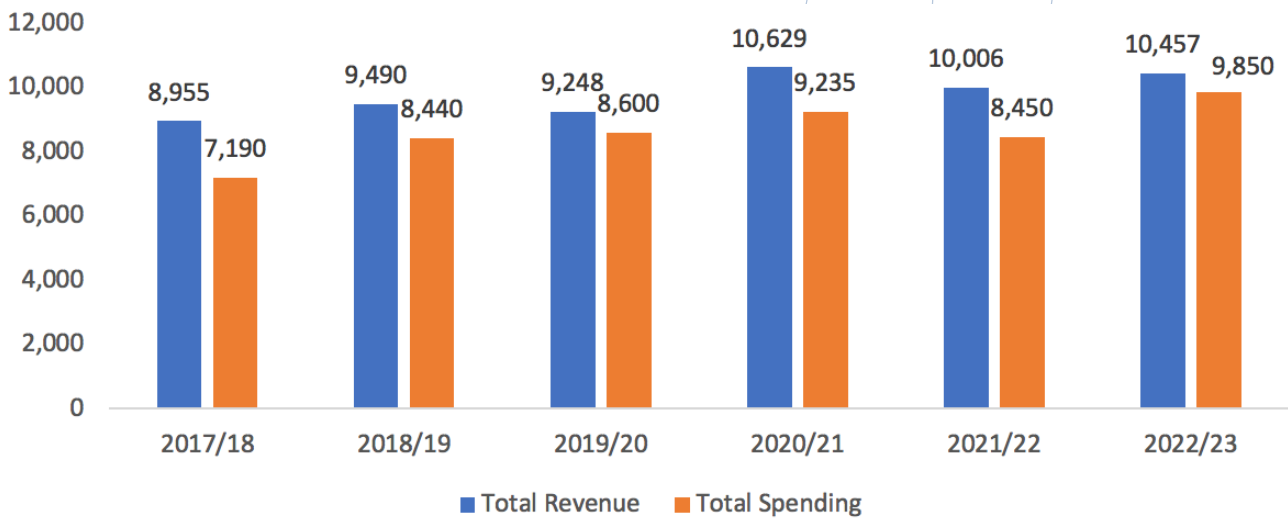


Figure 6: Government revenue vs spending of Makueni County

Source: Office of the Controller of Budget

During the period under review, the County government’s spending stood at Ksh 9.85 billion, which was 16.6% higher than FY 2021/22. This was due to the significant increase in the County’s recurrent expenditure. Expenditure on

development programmes amounted to Ksh. 2.54 billion while expenditure on recurrent programmes was Ksh 8.91 billion in the FY 2022/23.

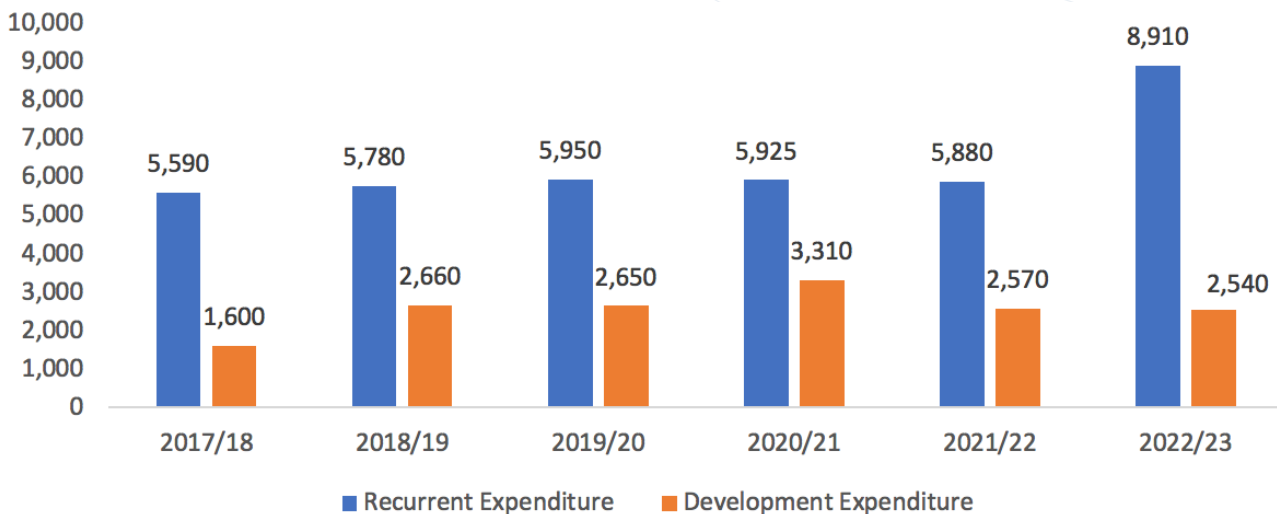


Figure 7: Breakdown of Makueni’s Government spending (2017/18-2022/23)

Source: Office of the Controller of Budget

Makueni County Government typically spends more on recurrent expenses such as employees’ compensations, cost of operations and other maintenance expenses. In FY 2022/23 expenditure on development programmes represented an absorption rate of 77.4% while recurrent expenditure represented 97.6% of the annual recurrent expenditure budget. Regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015 sets a limit of the County Government’s expenditure on wages and benefits at 35% of the County’s total revenue. However, Makueni County’s expenditure on compensation to employees was 42.1% of the annual realised revenue of Kshs.10.46 billion, which exceeds the set limit.

3.2.3 Revenue collection mechanism

Makueni County has both structured (periodic) and unstructured (nonperiodic) revenue streams. Structured streams include permits, liquor licenses, and property rates, whereas unstructured streams include one-time payments in the form of user fees and other charges. To improve revenue collection, the County has established entities such as the Makueni Sand and Utilization Authority, Makueni Alcoholic Drinks and Control Board, and Makueni Fruit Processing Plant, which are expected to gradually increase sand cess, liquor licensing fee, and agricultural cess collections, respectively.

Furthermore, in FY 2022/23, Makueni became the first County to integrate myCounty App into its services. The platform which will enable all 47 counties to digitise their services in one place while providing a single citizen access channel, will include payment for county services, revenue management systems, a citizen reporting and engagement tool and solutions around agriculture, health, utility bills and SME programs. It is expected that this alongside other initiatives of the government will boost OSR in the near term.

3.2.4 Makueni County debt profile

Makueni County has not taken debt before and therefore did not have any debt balances in its financial statement for the financial year ending June 2023. During the year under review (FY 2022/23), the County cleared pending bills amounting to Kshs.506.39 million, consisting of Kshs.252.68 million for recurrent expenditure and Kshs.253.71 million for development programmes. The outstanding pending bills as of 30 June 2023 was Kshs. 421.08 million.

3.2.5 Compliance with the Public Finance Management Act

The County Government's duties concerning the management and supervision of public finances are outlined in Part 4 of the Public Finance Management (PFM) Act of 2012. It lays up the rules for good financial management that County Treasuries must follow. The pillar is responsible for upholding the essential values of prudent financial management, accountability, and responsibility as outlined in Chapter 12 of the Constitution.

The Office of the Controller of Budget (OCOB) identified the following challenges to effective budget implementation while overseeing and reporting on the implementation of the Makueni County FY 2022/23 budget;

1. A large wage bill, accounting for 42.1% of the revenue for FY 2022/23, limiting funding for other programs. The Controller of Budget (COB) advised the County Public Service Board to create an optimal staffing structure to ensure that expenditure on personnel emoluments complies with Regulation (1) (b) of the Public Finance Management (County Governments) Regulations, 2015 and to devise strategies that address the escalating wage bill.
2. Fund Administrators' failure to submit quarterly financial and non-financial reports to the controller of budget (COB), in violation of Section 168 of the PFM Act, 2012. The reports for the Makueni County (Assembly) State and Public Officers Car Loan and Mortgage Fund were not submitted to the Controller of Budget. It is recommended that the CECMF follow up to ensure that County Assembly Fund Administrators prepare and submit statutory reports per the PFM Act of 2012.
3. High level of outstanding bills totalling Kshs.415.87 million as of June 30, 2023. In this case, the COB recommends that County leadership take charge of the deteriorating pending bills situation to ensure that genuine bills are paid without delay in the coming fiscal year. Furthermore, a payment plan should be provided at the beginning of the financial year.
4. Employing a manual payroll. Personnel emoluments totalling Kshs.356.42 million were processed manually, accounting for 9.2% of total payroll costs. Manual payroll is prone to abuse and may result in the loss of public funds where proper controls are lacking, so the county should expedite the acquisition of Unified Personnel Numbers for all employees. The County Public Service Board should also regulate staff engagement on contract and casual workers as provided under Section 74 of the County Governments Act 2012.
5. The County Treasury's late submission of financial reports to the Controller of Budget hampered the timely preparation of the budget implementation report. To address this challenge, the county treasury should ensure that financial reports are prepared and submitted on time to the Office of the Controller of Budget in accordance with Section 166 of the PFM Act, 2012.
6. Diversion of funds by the County Treasury and weak budgeting practice where the County incurred expenditure over approved exchequer issues in several departments. In this case, the COB recommends that the County Treasury improve the Vote book and budgetary control to ensure expenditure is within the approved budget.

4

Credit risk assessment of Makueni County

4.1 Rating rationale

- Augusto & Co. hereby assigns a “Bb ken” shadow credit rating to the County Government of Makueni (“Makueni County” or “the County”). The assigned rating reflects the County’s stable political environment, increasing capital spending on infrastructure development projects and technological innovation as well as modest financial flexibility owing to low leverage. However, the rating is tempered by the County’s low own source revenue which accounted for 9% of total revenue in FYE 2022/2023, high personnel expenses above the 35% limit set by Regulation 25 (1b) of the Public Finance Management (PFM) Act on account of the growing workforce, continued dependence on equitable share of income distributed by the Exchequer as well as the qualified audit opinions over the last five years by the Auditor General of Kenya.
- Makueni County is well known for horticulture, with agriculture being the dominant economic activity alongside beekeeping, small-scale trade, dairy farming, coffee growing, ecotourism and commercial businesses. According to the 2023 Gross County Product (GCP) report by the Kenya National Bureau of Statistics, Makueni County’s GCP was estimated at KES120.5 billion, representing about 1.1% of Kenya’s Gross Domestic Product (GDP). Makueni County is currently implementing the County Integrated Development Plan III (2023 -2027) which is expected to support the government’s transformational agenda of improving the quality of life of its citizens through several initiatives aimed at strengthening the County’s key economic sectors. Furthermore, the County implemented an e-collection system called Zizi County Revenue Collection System and launched the my Makueni County App both of which have supported the County’s own source revenue (OSR) collections in the period under review.
- In the financial year ended 30 June 2023 (FY 2022/23), Makueni County recorded total revenue of KES10.5 billion which was 5% above

the prior year, mainly due to a higher equitable share of income from the national government as well as an increase in own source revenue. On account of the improvement in automating the internal revenue collection system, the County recorded a 19% year-on-year rise in own-source revenue to KES891.6 million representing 9% of total revenue. Over the last five years, Makueni County’s OSR has grown at a compound annual growth rate (CAGR) of 12% thus depicting steady improvement in increasing OSR through strategic initiatives. However, the County continues to be significantly reliant on the equitable share disbursements from the National Government through the Exchequer which accounted for 78% of revenue in FY2022/23. Going forward, we anticipate a modest increase in OSR on the back of the ongoing revenue mobilization initiatives such as full automation of a self-service portal for payments, approval of licenses and permits and improved cashless revenue collection and enforcement.

- In the financial year ended 30 June 2023, Makueni County reported a total expenditure of KES9.85 billion (which was 17% higher than the prior year), comprising recurrent (74%) and development expenditure (26%). The County’s personnel cost (including payroll costs of the County Assembly) continues to be the largest cost component representing 41.2% of total revenue in FY 2022/23, which is above the 35% limit set by Regulation 25 (1b) of the Public Finance Management Act (County Regulations), 2015. However, the County’s overhead cost which has been negatively impacted by rising inflation over the last three years represented 23% of revenue in FY2022/23 and a three-year (FY 2020/2021 – 2022/23) average of 20%, which are both considered to be satisfactory in our view. Going forward, we expect Makueni County’s personnel expenses to revenue ratio to remain above the 35% threshold due to its growing workforce, while the overhead cost to revenue ratio is projected to rise moderately on account of higher inflationary pressures on administrative and office expenses as well as

the associated cost of planned investment in capital projects across the County.

- In FY 2022/23, Makueni County spent KES2.5 billion on development activities which accounted for 26% of total expenditure. This was lower than the 30% minimum requirement as stipulated in Section 107 (2b) of the PFM Act of 2012 and as such requires improvement. Going forward, we expect Makueni County to moderately increase capital spending in the short term in line with the FY 2023/24 Budget development expenditure of circa Kshs3.22 billion (representing 30% of the Budget). This is expected to finance planned infrastructure development across the County as noted in the County Integrated Development Plan (CIDP) 2023 - 2027. One of the flagship projects to be financed is the development and extension of a water pipeline in Kibwezi East sub-county (Masongaleni) estimated at Ksh40 million.
- As at the end of the 2022/23 financial year, Makueni County did not have any third-

party borrowings either directly or through contingent liabilities. However, Makueni County had outstanding payables (pending bills) arising from contracted goods and services of Ksh421.08 million as at 30 June 2023. Going forward, the County intends to access medium to long-term financing from the debt capital markets, commercial banks or external sources such as grants to execute development projects across water, public infrastructure, healthcare and agricultural sectors which are expected to stimulate the growth of the county economy and build resilience for sustainable development and prosperity. Overall, we expect Makueni County to continue to enjoy National Government support due to its critical social service and economic development mandate and role in improving the quality of life and welfare of its citizens.

- Based on the above, we hereby attach a stable outlook to the County Government of Makueni.

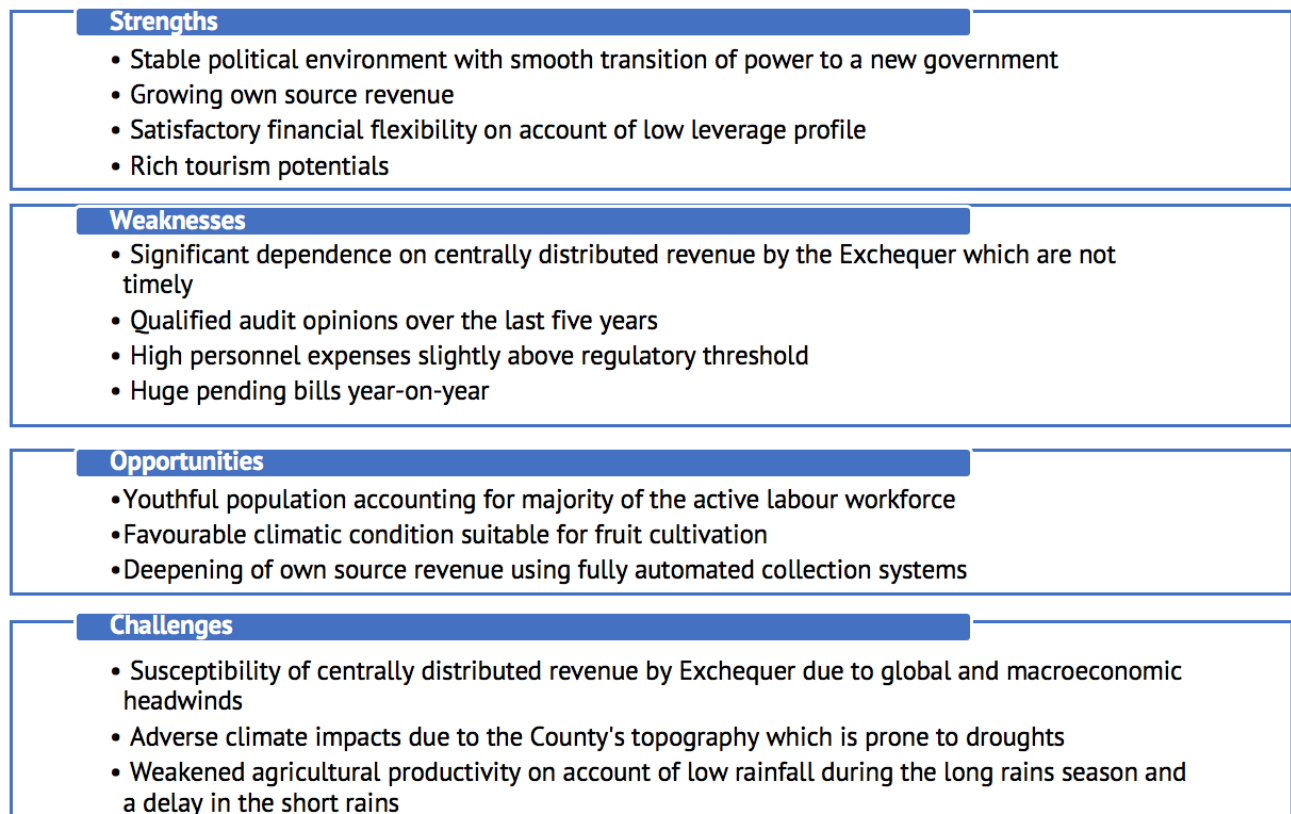


Figure 8: Strengths, Weaknesses, Opportunities and Challenges

4.2 Financial condition review

Analysts' comments

- Makueni County prepared the financial statements for the financial year ended 30 June 2023 in line with the International Public Sector Accounting Standards (IPSAS) cash basis.
- We have analyzed the financial statements of Makueni County over the three years FY 2020/21 to 2022/23

Revenue profile

Makueni County generates own source revenue (also known as internally generated revenue) from fines, licenses, levies and user fees as stipulated in Article 209 of the Constitution of Kenya. Also, the County receives income from the National Government as an equitable share of revenue collected and distributed nationally. Article 202 of the Kenya Constitution provides that revenue raised nationally shall be shared equitably among the National and county governments, with each county's share determined yearly through the County Allocation of Revenue Act (CARA). The sharing formula is developed by the Commission on Revenue Allocation and approved by Parliament per Article 217 of the Constitution of Kenya.

In the financial year ended 30 June 2023 (FY 2022/23), Makueni County's total revenue grew by 5% to Ksh10.5 billion from the prior year mainly due to a higher equitable share of income from the National Government as well as an increase in own source revenue.

To finance the County's approved FY 2022/23 budget of Ksh10.76 billion, Makueni County was expected to receive Ksh8.13 billion as the equitable share of revenue raised nationally, Ksh443.8 million as conditional grants and also generate Ksh1.08 billion from its own source revenue. Although, the County received Ksh8.13 billion as the equitable share of the revenue raised nationally (representing 100% of the budget), conditional allocations and OSR receipts fell short of the budget, leaving the County's revenue performance at 97.1% of the budget.

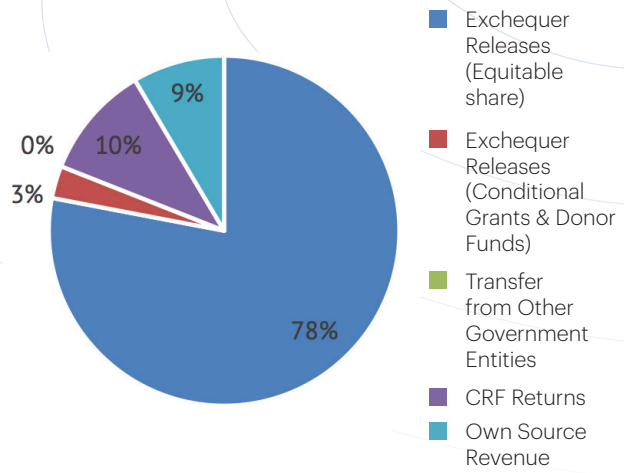


Figure 9: Breakdown of Makueni County's revenue - FY 2022/23

Further analysis of FY2022/23 performance shows that Makueni County's equitable share of income distributed by the Exchequer increased by 9% year-on-year (YoY) to Ksh8.13 billion and accounted for 78% of total revenue. Furthermore, Ksh330.4 million was received by the County as conditional grants and represented 3% of total

revenue, while returns to the County Revenue Fund (CRF) from the prior year's unutilized balances stood at Ksh1.1 billion (FY 2021/22: Ksh1.5 billion) and accounted for 11% of total revenue. Table 2 below shows the details of centrally distributed funds received by Makueni County over the last three years.

Table 4: Centrally distributed funds by National Treasury - FY2020/21 - FY2023/24 budget (Ksh'millions)

Centrally Generated Revenue	FY2020/21	FY2021/22	FY2022/23	FY2023/24 Budget
Exchequer releases (equitable share & donor)	8,043.0	7,482.2	8,132.7	8,455.4
Exchequer releases (Conditional grants and donor funds)	1,002.3	273.5	330.4	912.8
Transfer from other government entities	0.0	0.0	0.0	0.0
CRF Returns	1,057.0	1,501.7	1,103	0.0
Total Centrally Generated Revenue	10,102.3	9,257.3	9,566.2	9,368.2

In FY2022/23, Makueni County’s own-source revenue (OSR) rose by 19% YoY to Ksh891.6 million representing 9% of total revenue. This improvement is mainly linked to the strengthening of the automated revenue collection system, an enhanced uniform approach to revenue collection supported by the launch of the myMakueni County App and increased enforcement. Over the last five years, Makueni County’s OSR has grown at a compound annual growth rate (CAGR) of 12%, thus depicting steady improvement in OSR through the strategic initiatives mentioned above. Nonetheless, Makueni County similar to other counties remains significantly reliant on the disbursements from the National Government through the Exchequer to operate and we do not see this changing materially in the near to medium term.

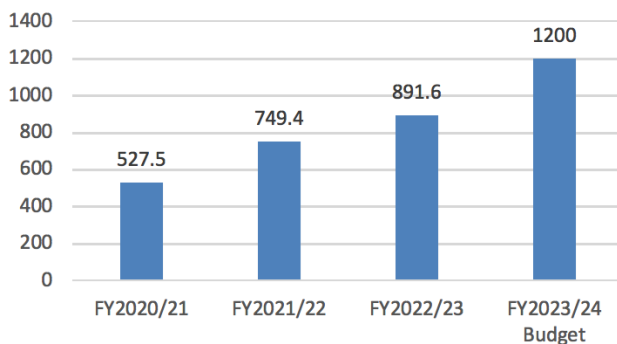


Figure 10: Own source revenue Ksh'millions (FY2020/21 - FY2023/24 Budget)

Based on the FY 2023/24 budget, Makueni County intends to generate a total of Ksh10.56 billion with equitable share from the National Government accounting for 80% of the total revenue, while conditional allocation from Exchequer (8.7%) and County Own Source Revenue (11.3%). The projected revenue is at par with FY2022/23 actuals owing to the potential macroeconomic headwinds which could impact various income sources accruable to the County.

Notwithstanding the aforementioned, Makueni County intends to continue with its local revenue mobilization and expenditure prioritization policy geared towards enhancing economic growth and resilience. Also, the County intends to increase OSR in the short to medium term through the following initiatives: strengthening the government approach in own source revenue mobilization; leveraging technology to fully automate all revenue streams; enhancing policy and legislative framework for revenue administration; recovery of outstanding debts owed in respect of plot rent from defaulters; leveraging valuation roll to enhance the collection of land-based revenue; establishing a county court to handle cases of non-compliance; integrating a single-billing system; establishing a dedicated enforcement and compliance unit for all revenue matters; and restructuring revenue administration to functional approach from the erstwhile geographic approach. We believe that these initiatives if executed successfully would translate into higher OSR in the near to medium term.

In our opinion, Makueni County’s overall revenue profile is weak and requires improvement.

Expenditure profile

Makueni County’s expenditure is guided by the Public Finance Management Act 2012 (PFM) and broken into two main broad categories – recurrent and development expenditure. Recurrent expenditure comprises expenses incurred in the services provided by the county government such as compensation of government employees, purchase of goods and services and interest payments on borrowings, amongst others. Development expenditure covers the payment for the acquisition or renewal of assets (property, plant and equipment) and Section 107 (2b) of the PFM provides that a minimum of 30% of a county’s budget be allocated to this expense category.

In the financial year ended 30 June 2023, Makueni County reported a total expenditure of Ksh9.85 billion (FY 2021/22: Ksh8.4 billion), comprising recurrent (74%) and development expenditure (26%). Further breakdown revealed that the County spent Kshs4.02 billion on employee compensation (representing 41% of total expenditure), Kshs2.37 billion on operations and maintenance (accounting for 24%), and Ksh933.9 million as transfer to the County Assembly for employee compensation, operations and maintenance and development activities (9%).

Based on our analysis, Makueni’s personnel cost (processed through the Integrated Personnel and Payroll Database (IPPD) system and manual payroll) including the payroll costs of the County Assembly represented 42.1% of total revenue in FY 2022/23 which is above the 35% limit set by Regulation 25 (1) (b) of the Public Finance Management (County Regulations), 2015. Although we recognise the cost containment measures deployed by the County to keep costs within acceptable limits, we note that personnel expenses have been on the rise in absolute terms and as a percentage of revenue over the last three years mainly elicited by huge wage bill, etching at 38% in FY2022/23. However, Makueni County’s overhead cost which has been negatively impacted by high inflation over the last three years represented 23% of revenue in FY2022/23 and a three-year (FY 2020/2021 – 2022/22) average of 20%, which are both considered to be satisfactory in our view.

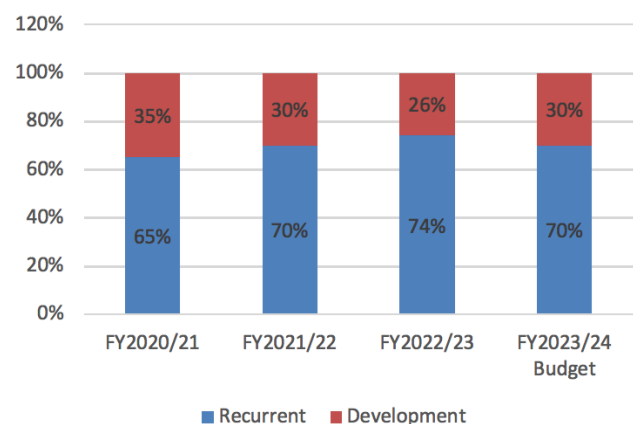


Figure 11: Recurrent and development to total expenditure

Section 116 of the PFM Act, 2012, allows County governments to establish public funds with approval from the County Executive Committee and the County Assembly. In FY 2022/23, Makueni County allocated Kshs259.7 million to county-established funds, constituting 2.2% of the County's overall budget for the year. However, only Ksh181.5 million had been disbursed as actual expenditure as at 30 June 2023.

In FY 2022/23, Makueni County spent Kshs2.5 billion on development activities which represented 26% of total expenditure. This was lower than the 30% minimum requirement as stipulated in Section 107 (2b) of the PFM Act of 2012 and as such requires improvement. Table 3 summarizes the list of development projects with the highest expenditure in the period.

Table 5: List of development projects with the highest expenditure FY 2022/23

	Project name	Department	Location	Amount (Ksh)
1	IDA (World Bank) credit (National Agricultural and Rural Inclusive Growth Project (NARIGP))	Agriculture and Rural Development	Countywide	210,486,540
2	Procurement of farm inputs- Provision of certified seeds - 5M per ward	Agriculture and Rural Development	Emali Mulala	130,690,110
3	Makueni County Fruit Processing Plant Development and Marketing Authority	Agriculture and Rural Development	Tulimani	60,000,000
4	Makueni Fruit processing plant -Reconstituting Line and packaging line operationalisation	Agriculture and Rural Development	All	47,447,595
5	Desilting, Expansion, construction of treatment works of Ndukuma Earth Dam and extension to Wote town - phase 1	Water & Sanitation	Kikumini/ muvau	45,328,460
6	Makueni Integrated Grain Value Chain Development Project	Agriculture and Rural Development	Masongaleni	18,913,464
7	IDA (World Bank) credit (National Agricultural and Rural Inclusive Growth Project (NARIGP) matching grant	Agriculture and Rural Development	Countywide	12,662,575
8	Athi Tunguni Water Project: Rehabilitation of existing water tanks at Tunguni and extension of water pipeline	Water & Sanitation	K, North/ Nguumo / Makindu	11,493,563
9	Development and Rehabilitation of Ngwata water pipeline project by KIMAWASCO - Masongaleni) - Phase 1	Water and Sanitation	Masongaleni	9,995,794
10	Co-operative Development and Management	Agriculture and Rural Development		9,866,085

Source: Makueni County Treasury

Based on the FY2023/24 Budget, recurrent expenditure is estimated at Kshs 7.3 billion representing 70% of the overall budget. This consists of personnel emoluments of Kshs 4.42 billion and Operation and Maintenance of Kshs 2.91 billion. Furthermore, the FY 2023/24 development expenditure of circa Kshs3.22 billion will account for 30% of the overall Budget and is expected to support the County's vision of enhancing economic growth and building community resilience.

Going forward, we expect Makueni County's personnel expenses to revenue ratio to remain above the 35% threshold due to its growing workforce, while the overhead cost to revenue ratio is projected to rise on account of higher inflationary pressures on administrative and office expenses as well as the associated cost of planned investment in capital projects across various sectors in the County. Also, we expect Makueni to moderately increase capital spending in the short term, on the back of planned infrastructure development across the County as noted in the County Integrated Development Plan (CIDP) 2023 – 2027.

In our opinion, Makueni County's overall expenditure profile requires improvement, particularly in moderating payroll expenses in the near term.

Debt profile

In line with the Public Finance Management Act 2012, counties can borrow funds for short-term or medium to long-term purposes. The County Treasury is expected to include in its County Fiscal Strategy Paper the financial outlook for the county government revenues, expenditures and borrowing for the coming financial year and over the medium term. According to the PFM, short-term borrowing by a county government of not more than 5% of the most recent audited county government revenue per Section 107 (3) can only be used for cash management purposes which is repayable within twelve months. In line with Section 107 (2d) of the PFM, county governments can borrow over the medium term only for financing development expenditure and the total county public debt is not expected to exceed 20% of total revenue at any time in line with Regulation 25 (1) (d) of the Public Finance Management (County Regulations), 2015.

As at 30 June 2023, Makueni County did not have any third-party borrowings on its book either directly or through contingent liabilities. As at the same date, the County had cash and bank balances amounting to Ksh0.25 billion (FY2021/22: Ksh1.23 billion). During the period under review (FY 2022/23), the Government of Makueni County cleared pending bills amounting to Ksh506.39 million and accumulated new pending bills of Ksh269.72 million, thus leaving the total outstanding pending bills as at 30 June 2023 of Ksh421.08 million. Although Makueni County has not obtained any third-party or commercial borrowing either short or medium-term, the government is keen to access medium to long-term financing to execute development projects such as the establishment of Makueni Industrial Park, construction of Kiaanzou water harvesting and distribution scheme, amongst others.

In our opinion, Makueni has a low leverage position given that it has not obtained any third-party borrowing. However, the County's financial flexibility to meet the obligations on future debt obligations requires improvement given its low own source revenue and inconsistency in distributions from the National Government.

4.3 Rating outlook

The FY 2023/24 Makueni County Budget of Ksh10.56 billion is geared towards the realization of the County's overarching transformational development agenda hinged on "Wauni wa Kwika Nesa na Ulungalu" – the desire to do good with integrity and a clarion call for "Our People, our Priority". The FY 2023/24 budget theme "enhancing efficiency for economic growth and community resilience" is anchored on five objectives which include:

- To enhance universal water access in the County.
- To increase sustainable agriculture production, value addition and market access for targeted value chains.
- To enhance access to quality and affordable health services.
- To increase industrialization and enterprise development by creating a conducive environment for investment and employment creation.
- To improve urban and rural infrastructural development and socio-economic transformation.

Makueni intends to improve its own source revenue over the medium term and intends to grow its OSR to about Ksh1.2 billion in FY 2023/24 (representing 11.3% of total revenue) through leveraging technology to fully automate all revenue streams and strengthening revenue mobilization initiatives across the county.

Based on the aforementioned, we hereby assign a "Bb Ken" shadow credit rating and attach a stable outlook to the Makueni County Government of Kenya. The rating reflects a County with a satisfactory financial condition

but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country.

4.4 Counties financing framework

Background

Counties in Kenya have been urged to embrace the Debt Capital Markets for Infrastructure Development Financing as macroeconomic headwinds and the impact of COVID-19 have placed significant pressure on the Government of Kenya's finances, which would ultimately limit near-term funds available for developing infrastructure projects across the 47 Counties.

Excerpts of Statutory requirements for County borrowing under the PFM Act 2012

58. (1) Subject to subsection (2), the Cabinet Secretary may guarantee a loan of a county government or any other borrower on behalf of the national government and that loan shall be approved by Parliament.
- (2) The Cabinet Secretary shall not guarantee a loan under subsection (1) unless—
- (a) the loan is for a capital project;
 - (b) the borrower is capable of repaying the loan, and paying any interest or other amount payable in respect of it;
 - (c) in the case of a private borrower, there is sufficient security for the loan;
 - (d) the financial position of the borrower over the medium term is likely to be satisfactory;
 - (e) the terms of the guarantee comply with the fiscal responsibility principles and financial objectives of the national government;
 - (f) where Parliament has passed a resolution setting a limit for the purposes of this section—
 - (i) the amount guaranteed does not exceed that limit; or
 - (ii) if it exceeds that limit, the draft guarantee document has been approved by resolution of both Houses of Parliament;
 - (g) the Cabinet Secretary takes into account the equity between the national government's interests and the county government's interests so as to ensure fairness;
 - (h) the borrower complies with any conditions imposed by the Cabinet Secretary in accordance with the regulations;
 - (i) the Cabinet Secretary has taken into account the recommendation of the Intergovernmental Budget and Economic Council in respect of any guarantee to a county government; and
 - (j) the loan is made in accordance with provisions of this Act and any regulations made thereunder.

(3) Parliament may approve a draft loan guarantee document as provided by subsection (2)(f)(ii) only if satisfied that—

- a) the guarantee is in the public interest;
- b) the borrower's financial position is strong enough to enable the borrower to repay the loan proposed to be guaranteed and to pay interest or other amounts payable in respect of the loan; and
- c) the loan is geared towards stimulating economic growth in a county government.

(4) To enable Parliament to decide whether or not to approve a draft loan guarantee document as provided by subsection (3), the Cabinet Secretary shall prepare and submit to each of the House of Parliament a paper that—

- a) gives details of the loan that is proposed to be guaranteed, including the amount of the loan, the terms of repayment, and the details of the interest or any other amount payable under the loan;
- b) specifies the national government's total contingent liability under guarantees given under this section; and
- c) specifies any other information that the Cabinet Secretary considers relevant.

59. Not later than fourteen days after the guarantee is entered into, the Cabinet Secretary shall submit to Parliament and publish a statement:

- a) stating that a guarantee is entered into; and
- b) containing details of:
 - i) the guarantee, including the name and other particulars of the borrower whose loan is guaranteed;
 - ii) the duration and nature of the guarantee;
 - iii) a risk assessment in respect of the guarantee; and
 - iv) any other information prescribed by regulations for the purposes of this subsection.

140. (1) A County Executive Committee member for finance may, on behalf of the county government, raise a loan for that Government's purposes, only if the loan and the terms and conditions for the loan are set out in writing and are in accordance with:

- (a) Article 212 of the Constitution;
- (b) sections 58 and 142 of this PFM Act;
- (c) the fiscal responsibility principles and the financial objectives of the county government set out in its most recent County Fiscal Strategy Paper; and
- (d) the debt management strategy of the county government over the medium term.

(2) A loan may be raised either within Kenya or outside Kenya.

141. (1) In borrowing money, a county government shall ensure that its financing needs and payment obligations are met at the lowest possible cost in the market that is consistent with a prudent degree of risk while ensuring that the overall level of public debt is sustainable.

(4) A public debt incurred by a county government is a charge on the County Revenue Fund unless the County Executive Committee member for finance determines that all or part of the public debt that would otherwise be a charge on that Fund shall be a charge on another public fund established by that county government or any of its entities.

(5) The County Executive Committee member for finance shall pay the proceeds of any loan raised under this Act into the County Revenue Fund or any other public fund established by the county government or as the County Executive Committee member for finance may determine.

(6) A County Executive Committee member for finance may establish a sinking fund or funds for the redemption of loans raised under this Act for the county government or any of its entities as the County Executive Committee member for finance considers necessary.

142. (1) The County Assembly may authorise short-term borrowing by county government entities for cash management purposes only.

(2) Any borrowing under subsection (1) may not exceed five percent of the most recent audited revenues of the entity.

(3) A county government entity that has any such borrowing shall ensure that the money borrowed is repaid within a year from the date on which it was borrowed.

144. (1) The county government may issue securities, whether for money that it has borrowed or for any other purpose, only in one or more series and only in accordance with this Act and regulations.

(2) The County Executive Committee member for finance may issue securities on behalf of the county government, for money borrowed by the county government in accordance with the criteria prescribed by regulations made for this subsection.

(3) Subject to the provisions of section 141 of this Act, the authority of the County Executive Committee member for finance to borrow money includes the authority to borrow money by issuing county government securities in accordance with the regulations.

(4) Any county government securities issued by the County Executive Member for finance under this section shall be within the borrowing limits set out by the county assembly under subsection 141(2) of this Act.

(5) A county government securities:

- (a) may be issued in one or more series; and
- (b) may be issued in accordance with loan agreements entered into in accordance with regulations developed by the County Executive Committee member for finance and approved by the County Assembly.

(6) An agreement to obtain a loan by a county government entity made under subsection (5), may be amended from time to time and where the amendment results in further indebtedness or prejudice to the entity that borrowed, the amendment shall be approved by the county

assembly.
 (7) The County Executive Committee member for finance shall ensure that every county government security issued under this section is given in the name of that County.



Figure 12: Pre-requisites for counties financing

Source: Agosto & Co. Research



Figure 13: Critical Stakeholders to support county’s financing framework

Source: Agosto & Co. Research

5

Green asset and activity assessment

Makueni County was subjected to a green asset identification and risk analysis to understand the availability of green assets and investment opportunities in the County. The approach used involved field visits to Makueni County where general sessions were held with members of specific stakeholder groups (county officials, civil society organisations, private actors and community representatives) who were invited to a workshop to discuss issues on the identification of green assets, projects and capabilities of the various stakeholder groups in the County. In addition, the workshop served as a medium for obtaining information relevant to the macro, fiscal and credit assessment of the County.

Information gathering questionnaires/assessment tools targeting various actors in the counties had been prepared and shared in advance before the visit to guide the assessment exercise. Augusto & Co. engaged three types of stakeholders during the visit using the

conference/workshop model, namely;

1. County officials which included Directors and County representatives of the seven priority areas related to climate change. (Disaster risk management; food and nutrition security; water and the blue economy; forestry, wildlife and tourism; health, sanitation and human settlements; manufacturing; and energy and transport.)
2. Civil Society Organisations (CSOs) and private actors in the climate-finance space in the County.
3. Community Representatives.

The table below outlines the activities for the visit to Makueni County:

<p>Day 1 (Tuesday 1 November 2022)</p> <ul style="list-style-type: none"> •Held briefing session with Governor and Senior County Officials •Held workshop and conducted technical green assessment session with Directors and County representatives of the seven priority areas related to climate change
<p>Day 2 (Wednesday 2 November 2022)</p> <ul style="list-style-type: none"> •Held workshop and conducted technical green assessment session with Civil Society Organisations (CSOs) and private actors in the climate-finance space in Makueni
<p>Day 3 (Thursday 3 November 2022)</p> <ul style="list-style-type: none"> •Site visits to Kaiti River, private solarized water company (GivePower), Kitonyoni Solar Project and Makueni County Fruit Development & Marketing Authority, Kalamba
<p>Day 4 (Friday 4 November 2022)</p> <ul style="list-style-type: none"> •Held a debriefing session with the Governor and Senior County Officials on the activities in the County

Figure 14: Makueni County schedule of activities



Figure 15: Participants at day 1 workshop



Figure 16: Participants at day 1 workshop

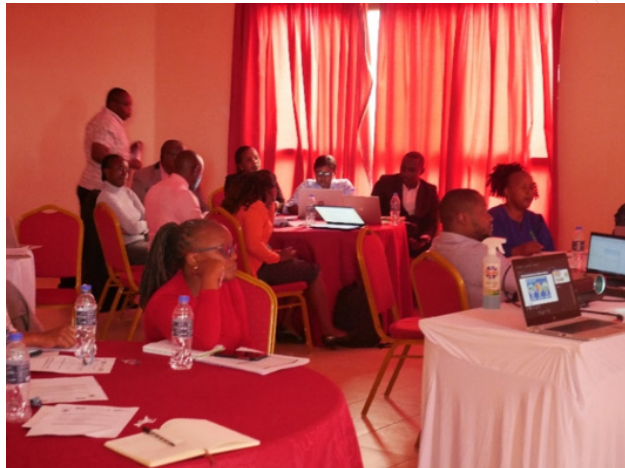


Figure 17: Participants at day 1 workshop



Figure 18: Participants at day 2 workshop



Figure 19: Participants at day 2 workshop



Figure 20: Participants at day 2 workshop



Figure 21: Site visit to Give Power (Day 3)



Figure 22: Kitonyoni Solar Plant Site Visit (Day 3)



Figure 23: Kitonyoni Solar Plant Site Visit (Day 3) – committee discussions



Figure 24: Kitonyoni Solar Plant Site Visit (Day 3)-households



Figure 25: Makueni Fruit Processing Plant site visit (day 3)



Figure 26: Makueni Fruit Processing Plant site visit (day 3)



Figure 27: Makueni Fruit Processing Plant site visit (day 3)



Figure 28: Makueni Fruit Processing Plant site visit (day 3)



Figure 29: Makueni Fruit Processing Plant site visit (day 3)



Figure 30: Makueni Fruit Processing Plant site visit (day 3)



Figure 31: Debrief with Makueni County Governor (Day 4)



Figure 32: Debrief with Makueni County Governor (Day 4)

5.1 Preliminary green priority areas

The following thematic areas emerged as key priority sectors for Makueni County following the discussions and interactions with various stakeholders and assessments conducted during the workshops and site visits.

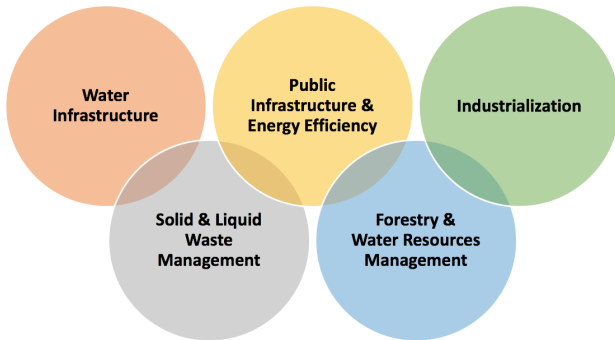


Figure 33: Makueni County’s key priority areas

These sectors are also identified as priority areas in the Makueni County Integrated Development Plan (CIDP), which the County Government is keen to see implemented in the medium term.

- Industrialisation:** To facilitate manufacturing and value addition, the County government plans to establish a Makueni Industrialization Park (MIP). The Industrial Park will promote the industrial sector to boost economic growth in the County. The government will invest in the development of industrial parks along the SGR

corridor in Mtito Andei, Emali, and Kibwezi.

- Water infrastructure:** The government intends to implement innovative and appropriate model water projects through partnerships and a multifaceted approach to increase the proportion of the population that has access to quality and adequate drinking, sanitation, and irrigation water.
- Forestry and water resources management:** The County government is keen to facilitate the gazettement of water catchment areas and the rehabilitation of rivers. The County intends to implement informed programming, effective resource utilization, embrace partnerships, and ensure long-term water resource management and environmental protection measures.
- Public infrastructure and energy efficiency:** Through quality and adequate infrastructure, the County government intends to collaborate with the national government, development partners, and experts to improve the productivity and profitability of other sectors of the economy. The County intends to prioritise the development of major towns as catalysts for the growth of other urban centres.
- Solid and liquid waste management:** The County intends to improve waste disposal by developing sewerage and waste management systems in urban areas.

5.2 Green assets identified

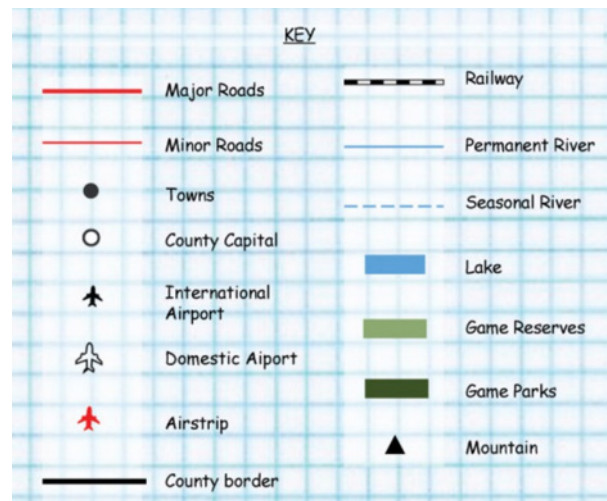


Figure 34: Map of the distribution of green assets in Makueni County

Source: e-Limu

Overview of green assets in Makueni County

Makueni County’s altitude is generally low, rising from 259m above sea level in the southeast to 2138m above sea level in the northwest. The landscape can be divided into four distinct units as follows:

- a) Undulating and very steep uplands (1467m-2138m above sea level) of Kilungu, Kilome and Mbooni to the northwest making up one-third of the County’s land mass.
- b) A vast open gently-inclined plain makes up two-thirds of the County’s landscape, stretching southeast from Kilome’s foothills.
- c) The bottomlands of Kibwezi towards the coastal Nyika Plateau (259m-747m above sea level).
- d) 100 km long linear Chyulu Hills mountain range, running northwest-southeast, edges the County’s southwest limits, while the Yatta linear plateau, running northwest-southeast, edges the County’s northeast limits.

The county’s unique landscape profile comprises the following key green assets:

Table 6: Green assets in Makueni County

Water bodies	Hills	Forests
River Athi	Chyulu Hills	Makuli Forest
Kikuu River	Mbooni Hill	Mbooni Forest
Muuoni River	Kilungu Hills	Nthangu Forest
Kaiti/ Thwake River	Nthangu Hill	Kibwezi Forest
Kiboko River	Nzaui Hill	Kilungu Forest
Oumani Spring	Nunguni Hill	
Mzima Spring		
Kibwezi River		
Masongaleni River		
Thavu River		

Water Bodies	Hills	Forests
Kambu River		
Mtito-Andei River		

Source: Makueni County Integrated Development Plan 2023- 2027 and Agosto & Co. Research

Water bodies

Makueni County has four perennial rivers: the Athi, Kiboko, Kibwezi, and Masongaleni. Other major rivers, such as the Thwake, Kaiti, Muooni, Kikuu, Thavu, Kambu and Mtito-Andei, are seasonal and subject to cyclical droughts. There are four springs, Iwani, Umanyi Kibwezi and wetlands in Kiboko, Mang’etele and Thange.

Despite having a dense network of rivers, Makueni is a water-stressed County. The average distance to a water source, particularly in the lowlands, is currently estimated to be 5 kilometres. This is due to rivers having a lower density than uplands. However, the hills in the uplands, as well as the sandy riverbeds in the lowlands, hold significant acquirers that are prolific all year and are extracted through boreholes and riverbed excavation.

The County has no surface water bodies, but it does have numerous swamps that temporarily hold water during the wet season. The County has over 159 dams and water pans, some of which are privately owned. The Kaiti sand dam, with a capacity of 400M3 per day, has the potential to supply water to Wote town, as do the Kwa Ndulu earth dam in Nguu/Masumba, the D4 dam in Kiima Kiu Kalanzoni, and the Kwa Luma and Kwa Mbila dams in Kathonzweni ward. Water availability for agricultural and household purposes is expected to improve dramatically with the completion of the Thwake Dam, which is currently under construction.

Forests and hills

The County has five gazetted forests, which include Makuli, Nthangu, Mbooni, Kibwezi and Kilungu, as well as 28 trust land forests totalling 152 km2. Three non-gazetted forests covering 40km2 are all given the same names because the County’s forests are mostly on hills.

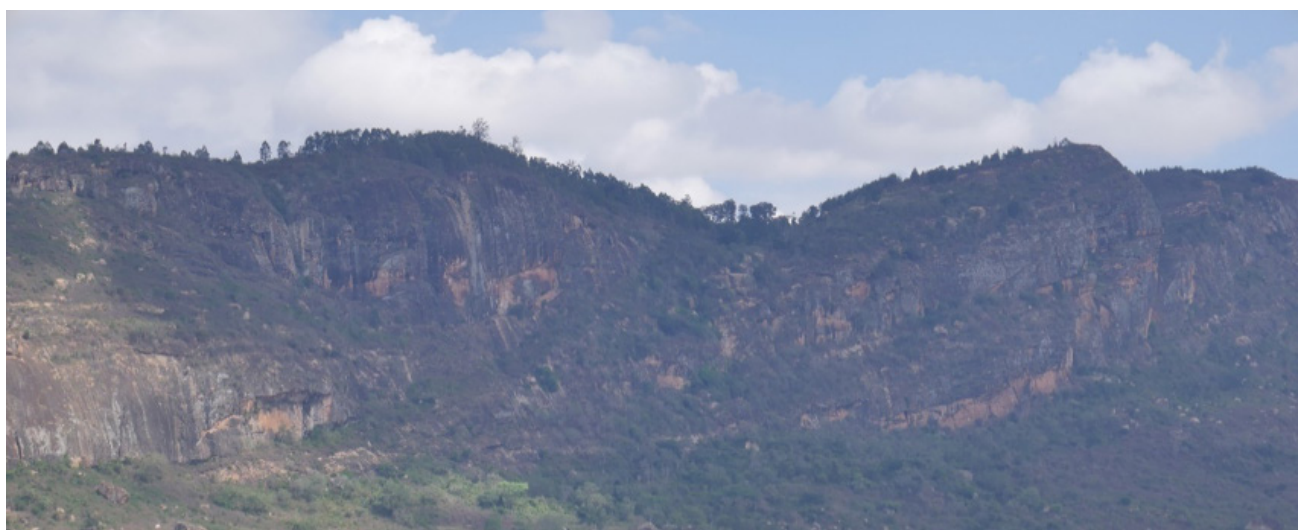


Figure 35: Nzaui Hill

Source: Agosto & Co. Research

Makueni County has faced challenges related to forest logging as well as raising community awareness about the importance of afforestation and forest conservation. Nonetheless, the County's leadership is keen to address the knowledge gap in the policy framework for forestry management and conservation.

Green assets shared with other counties

River Athi was identified as one of the major green assets that is shared with six counties. In the Eastern part of Kenya, the river is shared by Kitui and Makueni counties. The river experiences perennial conflicts concerning access to its water resources. It was noted that conflicts over control and management of shared/transboundary resources are common among counties. As such, there must be a harmonized and common approach to the conservation and management of shared/transboundary resources.



Figure 36: River Athi

Source: KenyanGeography

Green assets owned by the national government

The Kenya Forest Service, a state cooperation is in charge of the Makuli Forest which has seven forest blocks and the Mbooni Forest which has five forest blocks in the County. Further, Makueni County has 3 national parks (Tsavo National Park, Ngai Ndethya National Reserve and Chyullu National Park) which are managed by Kenya

Wildlife Services, a state corporation under the Ministry of Tourism and Wildlife.

The national government is also involved in the construction of Thwake Mega Dam in Makueni County which is expected to generate 17.6 megawatts of electricity and provide water for agriculture and household use, once completed.

5.3 Suggested green projects

Based on the thematic areas identified and Augusto & Co.'s assessment of the green assets above, the following

green projects were proposed for development and implementation: Appendix 9.2 has the list of potential green projects identified during the workshop and assessment.

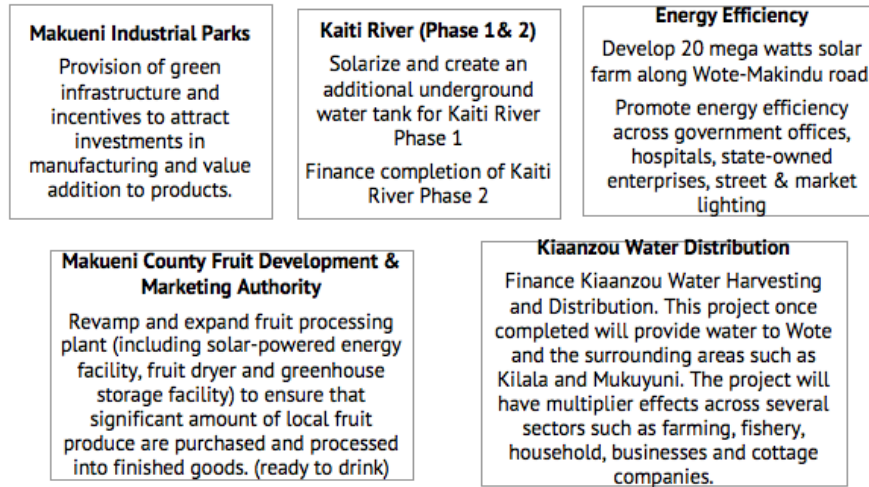


Figure 37: Makueni county suggested green projects

Makueni industrial parks

The promotion of value-added industrialization aimed at the processing and conversion of extracted raw materials and agricultural produce is a defining feature of the economic development strategy of Makueni County. As such the County is keen on setting up Industrial Parks which will form the backbone of a thriving export-oriented trade and urban-based commerce.

The Industrial Parks will be located along the towns on the Standard Gauge Railway (SGR) Corridor in Mtoi Andei, Emali and Kibwezi town. It is recommended that the County provides green infrastructure and incentives to potential investors to attract investments in the industrial parks.

Kaiti River

Kaiti River has several major projects along it, including

the Kaiti Sand Dam which supplies water to Wote town and has a capacity of 400M3 per day. The sand dam was constructed in 2014 by the County government as part of the Phase I Kaiti River project, which drastically improved the water supply to Wote residents. The water beneath the sand dam is stored in a large underground tank which is also known as a sump. The water is then pumped from the sump into a treatment plant and then supplied to the residents.

The Wote Water and Sanitation Company (WOWASCO), which manages the project, would like to solarize the water plant as well as create an additional sump to increase the capacity of water collected for distribution to residents to reduce the cost of pumping the water, which has resulted in high electricity bills. This increase in capacity would also close the 60% gap in water supply that currently exists, with water supplied once a week. Furthermore, Phase II of the Kaiti River project is still under construction and will require financing to be completed.



Figure 38: Kaiti River

Source: Augusto & Co. Research

Energy efficiency

The energy consumption in Makueni County is on the increase. However, the utilization of renewable energy sources in the County is still relatively low at 3.8%¹⁰. In addition, the majority of the residents rely on charcoal and firewood as the main source of energy, which in turn undermines the County's environmental conservation efforts.

The County has a high potential for solar power generation with 26 sunny days per month and an average County-wide insolation of 4.2-4.4kwh/kwp. One of the existing solar power plants in the County is the 13.5kWP Kitonyoni solar plant which serves the Kitonyoni rural market. The solar plant which was operationalized in September 2012 benefits more than 144 households who have a direct connection to the plant.



Source: Augusto & Co. Research



Source: Augusto & Co. Research



Figure 39: Solar panels at the Kitonyoni solar plant

Source: Augusto & Co. Research

The Makueni County stakeholders engaged during the field visit believe that developing a 20-megawatts solar farm along Wote-Makindu road will aid in the efforts of increasing the utilization of renewable energy

in the county. Further, the use of solar energy across government offices, hospitals, state-owned enterprises, and street and market lighting will promote energy efficiency.

¹⁰ Makueni County Spatial Plan 2019-2029

Makueni County Fruit Development and Marketing Authority

There has been increased development in the industry sectors with the establishment of agro-processing industries in the County. The establishment of the Makueni Fruit Processing plant in Kalamba has boosted the mango industry by reducing post-harvest losses for farmers in the County.

The mango processing factory was established by the County government in 2017 to stem wastage and raise incomes for fruit farmers in the County. The Plant which is located in Kalamba has the capacity to process 5 metric tons of raw mangoes producing 3,000 litres of Puree (Mango concentrate) per hour. Puree when diluted is used to make ready-to-drink juice.



Figure 40: Bottling machine at the Makueni fruit processing plant

Source: Agosto & Co. Research

The factory has the capacity to process 3,000 metric tonnes per season leaving about 300,000 metric tonnes to go to other markets. The factory is also set to enter the ready-to-drink juice market as soon as certification from the Kenya Bureau of Standards (KEBS) is received. The ready-to-drink juice line has a production capacity of 8,000 litres per hour.

Nonetheless, the processing plant is yet to break even, owing to significantly higher overheads. One of the ongoing challenges for the processing plant is an unreliable power supply and huge electricity bills due to the amount of energy required to run the plant. As a result, the Makueni Fruit Processing plant should be renovated and expanded to include a solar-powered energy facility, fruit dryer, and greenhouse storage facility, ensuring that a significant amount of local fruit produce is purchased and processed into finished goods.

Kiaanzou water distribution

Water demand in Makueni County is 60,000M³/day, while current production is 30,000M³/day, resulting in a 30,000M³/day deficit (Water Mapping Survey, 2021). The County's overall access to an improved water supply is limited. To address the water scarcity, the County must develop and improve existing water infrastructure throughout all Wards. This will be accomplished through projects such as the Kiaanzou water distribution project in Kaiti, which will provide residents in Wote and the surrounding areas of Kilala and Makuyuni with water for a variety of purposes. Several sectors of the County's economy will benefit from the project as well.

Additional projects

Sector	Project	Project Details
Urban Development	Makueni Urbanization Agenda – Development of green spaces Wote and Emali/Sultan Hamud Municipalities	Under the Makueni County Urbanization Agenda (MCUA), the County Government intends to develop safe green spaces and recreational centres in Urban areas.
Energy Efficiency	Solar plant development in Makindu, Mtito Andei, Kavumbu, Ndua and Kivyalu Hydro-power plant development along Athi-River in Thwake	Under the County green energy development and promotion projects, Makueni County plans to develop solar and hydropower plants in collaboration with private development partners to increase its power resources.
Forest	Landscape and Forest Restoration	The Department of Land, Environment and Urban Planning intends to enhance forest and landscape restoration activities to increase land under forest and tree cover in the County.
Solid & Waste Management	Integrated Waste Management for Wote Municipality – Recycling components, youth empowerment program	To enhance proper solid and liquid waste management in the County, the Water, Sanitation, Environmental and Natural Resources sector plans to implement an integrated waste management system for Wote Municipality which will have components of recycling centers and youth empowerment programs

6

Risk analysis on suggested green projects

	Climate risks	Environmental risks	Legal risks	Reputational risks	Financial risks
Makueni Industrial Park	Sustained environmental pollution may lead to climate changes which could cause flooding or drought in the county.	<ul style="list-style-type: none"> Water pollution Air pollution Land pollution 	Probability of a poorly executed environmental impact assessment	<ul style="list-style-type: none"> Greenwashing Allegations of corruption when engaging potential investors in the Industrial Park 	<ul style="list-style-type: none"> Inadequate funding Diversion of funds
Kaiti River	Flooding during the rainy seasons	Water pollution from the various activities related to increasing the capacity of the water supply to the residents.	The conflict between the surrounding community and WOWASCO is due to protection measures put in place around the river both upstream and downstream.	Lack of public-involvement in the execution of the project phases.	<ul style="list-style-type: none"> Inadequate funding Diversion and mismanagement of funds The inability of the project to cover operational costs once completed
Energy Efficiency	The installation process of solar systems could result in the release of greenhouse gases into the environment.	Some of the products used in the manufacturing of photovoltaic systems contain toxic materials and hazardous products which can indirectly affect the environment.	Potential conflict between the Kenya Power and Lighting Company (KPLC) and the county government, especially due to public institutions that heavily rely on the national power provider for energy.	<ul style="list-style-type: none"> Greenwashing, if the minimum criteria required for the renewable energy sectors is not met. Lack of proper and timely reporting as required. 	<ul style="list-style-type: none"> Inadequate funding due to the initial high cost Diversion of funds

	Climate risks	Environmental risks	Legal risks	Reputational risks	Financial risks
Makueni County Fruit Development & Marketing Authority	Long-term environmental pollution may cause climate change, resulting in flooding or drought in the county.	<ul style="list-style-type: none"> • Water pollution • Air pollution • Land pollution 	The likelihood of a poorly carried out environmental impact assessment.	<ul style="list-style-type: none"> • Allegations of divesting and corruption • Lack of involvement of the project management committee in decisions made by the county government • Environmental pollution may cause conflict between the company and the community living nearby. 	<ul style="list-style-type: none"> • Inadequate and unreliable funding • Diversion of funds • Inability to break even and the fruit processing plant becoming a loss-making venture.
Kiaanzou Water Distribution	Possibility of flooding at the water source.	Water pollution from the activities of distributing water to the surrounding community.	Unpaid bills for metered water to residents.	<ul style="list-style-type: none"> • Lack of public participation in project execution • Divesting allegations • Potential of water quantity and quality disruptions 	<ul style="list-style-type: none"> • Inadequate funding • Diversion of project funds

7 Green finance capability assessment

Agusto & Co. conducted a green finance capability assessment for Makueni County to assess the County government's skills and ability to manage green financial instruments, with a focus on green bonds and related projects. It was noted that there is still a significant knowledge gap among Makueni County government staff, despite the Climate Change Department's efforts to ensure that at least one person in each department is aware of green finance and climate change issues. As the County prepares to participate in the green finance market, it is recommended that the Makueni County government put measures in place to ensure that capacity building of County staff in the aforementioned areas takes place.

The County has existing legislation that could support the management of the green assets and projects identified, as highlighted below:

a) Makueni County Climate Change Act 2022 – The Act establishes a framework and mechanisms for mobilizing and facilitating county governments, communities, and other stakeholders to respond effectively to climate change through appropriate adaptation and mitigation measures and actions, as well as for other related purposes. The Act aims to increase climate resilience by mobilizing resources for the development, management, implementation, regulation, and monitoring of adaptation and mitigation measures and actions. The Act further establishes the County Climate Change Fund (CCCF), which will provide funding for priority climate change actions and interventions identified by communities and other stakeholders and approved by the Steering Committee. The Fund shall be financed by money appropriated annually by the County Assembly, which shall be no less than 2% of the County's annual development budget, excluding conditional grants and loans. CCCF also provides a mechanism that enables vulnerable communities through their climate change structures, to access and use climate finance to build their resilience to the changing climate in a more coordinated way.

The mechanism consists of four interrelated components namely: establishing a county-level climate change fund, putting in place climate change planning committees at ward and county levels, integrating climate information into planning and implementation and monitoring and evaluation of progress with resilience building at both community and institution levels as a result of the adaptation investments made. The approach enables the implementation of public good investments that address communities' priorities while supporting the county government deliver its mandate in realizing sustainable development in the face of climate change.

- b) Makueni County Water Policy 2018** – This policy was created to address the County's challenges, which include acute water shortages caused by frequent droughts, encroachment, and degradation of water catchment areas. Moreover, there was a lack of awareness and sensitization about water harvesting and storage techniques, as well as poor governance and management of existing water infrastructure. The County has yet to develop sufficient capacity to develop and manage available water resources sustainably. With this in mind, the Department of Water, Irrigation, Environment, and Climate Change drafted the Makueni County Water Policy 2018 in consultation with relevant stakeholders and with public participation.
- c) Makueni County Water Act 2020** – The Act applies to the development and sustainable management of water, sanitation and sewerage services in the County.
- d) Makueni County Tourism Policy 2020** – The policy provides for the development of a legal and institutional framework for effective coordination and management of the sector to enhance cross and inter-sectoral linkages as well as the building of public-private partnerships.
- e) Makueni County Sand Conservation and Utilization Act 2015** – The policy's key objective was to provide for sustainable conservation and utilization of sand within

Makueni County, by providing for the establishment of the Sand Conservation and Utilization Authority tasked with the oversight of all sand and related activities within the county and the Sand Conservation Fund.

- f) Makueni County Fruit Development and Marketing Authority Bill 2017** – The act provides a framework for the administration of the fruit sub-sector and value addition in Makueni County.

- g) Makueni County Climate Change Action Plan 2023-2027** – The Action Plan covers Makueni’s climate context, associated risks and hazards, strategic interventions, and county climate action priorities.

- h) Energy Policy and Plan** – the plan details access to affordable, sustainable, and clean energy, productive use of energy, clean cooking technologies and sustainable bioenergy for the County.

Table 7: Makueni county capability assessment

S/n	County Capabilities Assessment	Status	Justification
CCCF governance, stability, and performance			
1	Presence of a legal and regulatory framework for green/climate finance	Yes	There exists the Makueni County Climate Change Bill, County Finance Bill and County Monitoring and Evaluation Policy which will guide the County on green/climate finance
2	Political commitment to green growth and support for use of green finance	Yes	Existence of a County Department concerned with Environment & Climate Change
3	County government familiarity with the Green Finance and Bond Framework and requirements	No	Capacity building in the areas of Green Finance and Bond Framework is still required
4	County capability in managing green funds (preferably for financial return)	Yes	The county has received funds previously to fund green projects, nonetheless, most of the projects are not for financial return but for social impact
5	County’s ability to apply county-level financial tools	Yes	The County has Finance Bills and policies in place which have been applied previously
6	County’s understanding of frameworks for green finance instruments	No	There is still a need for capacity building in this area
7	County’s understanding of stakeholder engagements in the origination, design, implementation, and monitoring and evaluation (M&E) of projects.	Yes	There is a County Public Participation Policy and County Monitoring and Evaluation Policy in place
Green project and finance experience			
1	Number of County staff dedicated to green finance issues	Yes	County staff in the Environmental & Climate Change Department are knowledgeable on green finance issues.
2	Number of County staff trained in environmental management, climate/ green finance, or related areas	Yes	County staff in the Environmental & Climate Change Department
3	Number of County staff with project management experience particularly with bonds and green projects	Yes	County staff in the Environmental & Climate Change Department have experience with green projects as evidenced by the County Climate Change Fund Inventory Adaptation Investments 2013-2017
4	Number of County staff with experience with accessing and prudentially utilising other green financial resources (e.g., donor funds)	Yes	County staff in the Environmental & Climate Change Department have experience with accessing and prudentially utilising other green financial resources as evidenced by the County Climate Change Fund Inventory Adaptation Investments 2013-2017

S/n	County Capabilities Assessment	Status	Justification
Access to appropriate green finance and project experts			
1	Ability of County government to identify and procure experts to support green finance projects	Yes	The County government has previously implemented green projects successfully
2	Ability of County government to mobilise financing to secure and pay for services rendered	Yes	The County has been able to receive funding through various programs that have a social impact, from various stakeholders including donors and the national government
3	Existence of coordination mechanisms and experience working with national government ministries and agencies such as the National Treasury that can provide the necessary support.	Yes	Makueni County has various policies in place which guide the process of coordinating with the national government or agencies. Such as the Makueni County Climate Change Fund Regulations, 2015 which guides the use of funds received from the International Climate Finance through the National Designated Authority, National Implementing Entity or through other agencies.
4	County's qualification for Financing Locally Led Climate Action (FLLoCA) funds	Yes	Makueni County has a County Climate Change Act, 2022 in place and therefore qualifies to access the FLLoCA Funds.
5	Has the County successfully received and dispersed FLLoCA funds	Yes	So far, the County has received funds for institutional strengthening including for the participatory climate risk assessment (PCRA) process. The PCRA process will enable counties to identify investment areas/projects after which counties can receive investment grants to apply to these areas/projects.

8

Recommendations

Based on the sessions and workshops with the different stakeholders and assessments of existing green assets, Augusto & Co. hereby posit that Makueni County considers the following recommendations in the near term:

Table 8: Recommendations to the Makueni County Government

Section	Recommendations
County credit risk assessment	<ul style="list-style-type: none"> Makueni County's overall revenue profile requires improvement in a bid to increase own source revenue to a sustainable base to cushion future fluctuations in national government revenue. The County can leverage technology to fully automate all revenue streams and strengthen revenue mobilization initiatives across the County. The expenditure profile of the County requires improvement particularly in moderating payroll expenses in the near term and keeping overhead costs within reasonable limits as well as ensuring that funds are not diverted to unbudgeted activities. Makueni County should embrace the Debt Capital Markets for Infrastructure Development financing as macroeconomic headwinds have placed significant pressure on the Government of Kenya's finances, which would ultimately limit near-term funds available for developing infrastructure projects.
Green asset and activity assessment	<ul style="list-style-type: none"> The County Government of Makueni needs to increase public sensitization on reforestation and afforestation. Provision of green infrastructure and incentives to attract investments in manufacturing and value addition to products. Continued investment in county infrastructure to encourage tourism in the forestry sector.
County green assets and climate - related legislations	<ul style="list-style-type: none"> There is a need to create awareness in the communities on climate change policies and impacts. Enforce compliance with established County laws and policies such as climate change policies.
Green finance capability assessment	<ul style="list-style-type: none"> Capacity building of County Staff in all departments on climate change and green finance Capacity building and awareness for key stakeholders such as Members of County Assembly (MCAs), civil society organisations (CSOs), community based organisations (CBOs) and private actors.

Makueni County will be properly positioned to implement the suggested green projects if the following steps are pursued in the near to medium term;

- Development of Concept Notes for the various suggested projects by relevant County Stakeholders
- Undertake feasibility and viability studies on proposed projects as well as cost-benefit analysis
- Obtain requisite approvals (County Executive and Assembly) for the selected projects
- Design and develop approved projects in tandem with sustainability standards
- Obtain relevant County and National Government approval to raise finance to fund projects
- Subject proposed projects to green verification standards such as the Climate Bonds Standards

- Issue green County instruments to raise funds to execute projects
- Monitor utilization of proceeds and report on use and impact on the environment and the welfare of the citizens.
- Alternatively, the Makueni County can utilize a special purpose vehicle (SPV) to ring-fence the green assets to raise funds from the green finance market to execute priority infrastructure projects or partner/support private enterprises in Makueni (provision of land, infrastructure and incentives) to access the green finance market to finance identified green projects, especially in the agro-processing and value additions to agricultural produce.

To support the growth of the green finance market, we believe that the national government has a key role to play through:

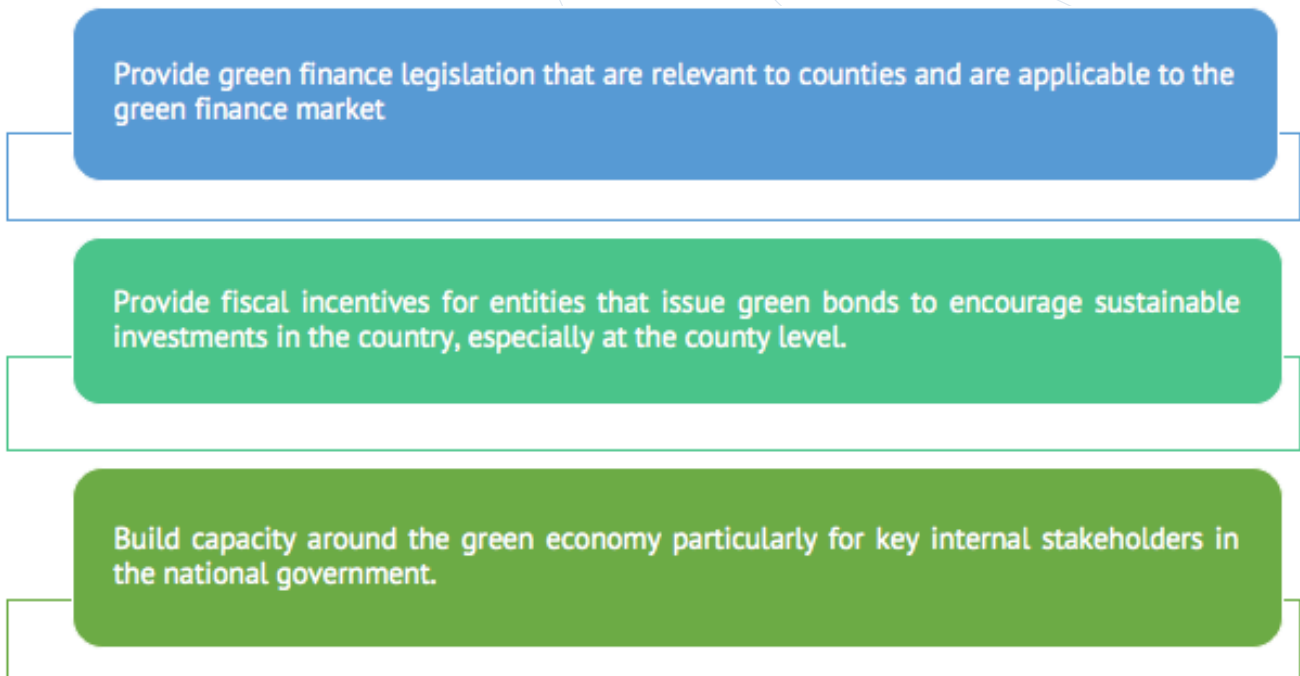


Figure 41: Recommendations to the national government

9 Appendices

9.1 County profile summary

No	Indicator	County 2013	County 2021	National 2021
Population and Macroeconomic Outlook				
	Estimated County Population	884,527(KNBS 2009)	987,653 (KNBS, 2019)	2.1% of the total country's population
1.	Males	432,870	489,691	49.60%
	Females	451,657	497,942	50.30%
	Intersex	0	20	0.02%
2.	Estimated Population Density (persons/km2)	108	121	82
3.	Persons with disability (%)	4	4.1	2.2
4.	Population living in rural areas (%)	95.95	92.2	68.8
5.	Children (0-14 years) (%)	21.5	39	41.1
6.	School going age (4-22 years) (%)	43.8	44.7	68.7
7.	Youth 15-34 years (%)	31.62	34.1	36.1
8.	Labour force (15-64 years) (%)	51.1	56	55
9.	Elderly population (over 65-year-old)		0.8	3.9
10.	Poverty (%)	60.6(KHBIS 2006)	34.8 (2015/2016)	36.1
11.	Food Poverty (%)	57.20%	30.7 (2015/2016)	31.9
12.	Multi-dimensional Poverty (%)	77.40%	67.2% (2015/2016)	56.1
13.	Stunted children %		25.1 (KDHS 2014)	26
14.	Gross County Product (Kshs Million)		111,641 (2020)	1.1% Share to total GDP (2020)
15.	Average growth of Nominal GCP/GDP (%)		11(2013-2020)	15.30%
16.	GCP per capita (Kshs)	56,100	64,840	179,021.60
Child Health				
17.	Percentage of children under 1 year of age fully immunized	85%	100%	84%
	Child Mortality Rate (CMR)			
	Under Five Mortality Rate (U5MR)	49/1000	43/1000	47/1000
Reproductive Health				
18.	Maternal Mortality Rate	488/100,000	362/100,000	400/100,000
	Percentage of deliveries conducted by skilled attendants in health facilities	35%	90%	60%
	Percentage of pregnant women attending at least 4 ANC visits	32%	54%	42%

No	Indicator	County 2013	County 2021	National 2021
Public Health				
19.	Latrine coverage	86%	93%	85%
	Open Defecation Free (ODF) rate	2%	12.8%	10%
Human Resources for Health				
20.	Doctor Population Ratio	1:25,000	1:16,149	1:16,000.
	Nurse Population Ratio	1:1,874	1/1,502.	1:1,034
Health care financing				
21.	Health Insurance Coverage	5%	15%	6%
Water Access				
22.	The proportion of HHs accessing water from improved water sources (%)	36.8	42.8	64.8
23.	The proportion of HHs accessing improved sanitation services (%)	55	85.2	82.5
Lands and Environment				
	Tree cover	7.10%	12.47%	12.13%
24.	Forest Cover	-	5.38%	8.83%
	Security of Land tenure	21.60%	31.60%	-
Agricultural Production and Productivity				
25.	Share of Agriculture sector contribution to GCP (Gross County Product)	46.3%	29.5%	22.4%
26.	Amount of mangoes produced annually in metric tonnes	153,646	274,852	738,321
27.	Amount of milk produced annually in kilogrammes	17,825,481	30,288,000	801,911,905

Source: KNBS and County Statistics Unit

9.2 Three year financial summary – makueni county government

REVENUE & EXPENDITURE	2020/2021		2021/2022		UNAUDITED 2022/2023	
	KES'mns	%	KES'mns	%	KES'mns	%
REVENUE						
Centrally Distributed Revenue						
Share of Exchequer releases (Equitable Share)	8,043.0	76%	7,482.2	75%	8,132.8	78%
Share of Exchequer releases (Donor & Grant Funds)	1,002.3	9%	273.5	3%	330.4	3%
Other Capital Receipts (other government entities)						
CRF Returns/Reallocation budget	1,057.0	10%	1,501.7	15%	1,103.1	11%
Centrally Generated Revenue (CGR)	10,102.3	95%	9,257.3	93%	9,566.2	91%
County-Owned Source Revenue						
Asset sales	-		-		-	
Investment Income	-		-		-	
Others - licenses, permits, fines & fees	527.5	5%	749.4	7%	891.6	9%
County Own Source Revenue (OSR)	527.5	5%	749.4	7%	891.6	9%
TOTAL REVENUE	10,629.8	100%	10,006.7	100%	10,457.8	100%
Direct Donations and Grants Receipts	-		-		-	
TOTAL REVENUE & GRANTS	10,629.8		10,006.7		10,457.8	
EXPENDITURE						
Transfers (County Assembly, others)	802.8	9%	654.3	8%	933.9	9%
Interest Payments	-		-		-	
Departments Expenditure	8,432.6	91%	7,793.5	92%	8,913.4	91%
TOTAL EXPENDITURE	9,235.4	100%	8,447.9	100%	9,847.3	100%
Department's expenditure comprises						
Personnel costs	3,401.1	37%	3,352.0	40%	4,022.6	41%
Purchase of goods & services	1,822.2	20%	1,885.6	22%	2,372.8	24%
Capital expenditure	3,209.3	35%	2,556.0	30%	2,518.1	26%
Other Payments (contingency, scholarship, subsidies, etc)	-		-		-	
Total Departments Expenditure	8,432.6	91%	7,793.5	92%	8,913.4	91%
BUDGET BALANCE	1,394.4		1,558.9		610.5	
Foreign loan balance	-		-		-	
Domestic loan balance	-		-		-	
Total loan balance	-		-		-	
Total Pending Bills	58.1		657.8		421.1	
Auditor General of Kenya Opinion	Qualified		Qualified		Unaudited	

KEY RATIOS	2020/2021	2021/2022	2022/2023
Revenue			
OSR as % of GDP	0%	1%	1%
Centrally Generated Revenue as % of GDP	8%	8%	8%
Total revenue as % of GDP	9%	8%	9%
OSR as % of total revenue & grants	5%	7%	9%
Centrally Generated Revenue as % of total revenue & grants	95%	93%	91%
Growth in Centrally generated revenue	7%	-8%	3%
Spending			
Total Expenditure as % of GDP	7%	7%	8%
Non-discretionary expenditure* as % of Centrally generated revenue	42%	43%	52%
Capital expenditure as % of total expenditure	35%	30%	26%
Payroll as % of revenue	32%	33%	38%
Overheads as a % of revenue	17%	19%	23%
Budget balance/revenue	13%	16%	6%
Leverage			
Budget balance ('mns)	1,394.38	1,558.88	610.5
Debt as % of nominal GDP			
Interest payments as % of total revenue			
Principal due as % of Revenue			
Financial flexibility			
Discretionary revenue** as % of total revenue	60%	60%	53%
Net Debt as % of Free Cash Flow ***	-16%	-25%	-27%
Non-discretionary expenditure as % of total expenditure	46%	47%	50%
* Non-discretionary spending is made up of statutory transfers, interest payments and personnel costs			
** Discretionary revenue is total revenue minus non-discretionary spending			
*** Free cash flow is defined as revenue minus non-discretionary spending			

9.3 Rating definitions

Aaa	A county with the best financial condition and the strongest capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
Aa	A county with a very strong financial condition and a very strong capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
A	A county with a good financial condition and a strong capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
Bbb	A county with a satisfactory financial condition and adequate capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
Bb	A county with a satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
B	A county with a weak financial condition and weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
C	A county with a very weak financial condition and very weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
D	County in default.

9.4 Other potential green projects identified during the assessment

Water	Forest	Solid & Waste Management	Industrialization	Energy Efficiency	Public Infrastructure
<ul style="list-style-type: none"> River Athi Kikuu River Muuoni River Kaiti River Thwake Dam Kiboko Natural Spring Oumani Spring Mzima Spring Manooni Dam (Makueni) Mulima River (Mbooni) Kiaanzou River Kinze River (Mbooni) Ndukuma River (Makueni) 	<ul style="list-style-type: none"> Makuli Forest (7 blocks) Mbooni Forest (5 blocks) Kibwezi Forest (1 block) 	<ul style="list-style-type: none"> Water Sewage Decentralized Treatment Facilities Storm Water Management 	<ul style="list-style-type: none"> Makueni Industrial Park Fruit Processing Plant Coldroom and Warehouses Makueni Grains Processing Cottage Industries Stones from Volcanic sediments (Kibweze West) 	<ul style="list-style-type: none"> Energy efficiency & policy in hospitals, government institutions and corporates Climate change policy and advocacy Off-grid solar farms 	<ul style="list-style-type: none"> Municipal and sub-county Roads Market lighting through solar Solarized drying and processing yards

9.5 List of stakeholders engaged during the workshops

Day 1

Institution Name	Designation of Attendees
Makueni County Government	Director and representatives from the Environment and Climate Change Department
Makueni County Government	Director, Planning and Finance
Makueni County Government	Director, Monitoring and Evaluation
Makueni County Government	Assistant Director and representatives from the Water Sector Department
Makueni County Government	Representatives from the Health Sector Department
Makueni County Fruit Processors Co-operative	Treasurer

Day 2

Institution Name	Designation of Attendees
GivePower	Site Manager
Makueni County Fruit Processors Co-operative	Field Officer
Kenya Red Cross	Representative
Makueni County Government	Climate Change Experts
BISEP	Data Clerk
URAIA	Civic Educator

Kwetu Sacco	Branch Supervisor
MAPACA	Program Officer
KCB Bank	Personal Banker
Cereal Growers Association (CGA)	Agribusiness Coordinator

Day 3

Institution Name	Designation of Attendees
Makueni County Government	Municipality Engineers
Wote Water and Sanitation Company (WOWASCO)	Managing Director and the Water Company Engineers
GivePower	Site Manager
Kitonyoni Solar Farm Managers (MCSES)	Committee Members
Makueni County Fruit Processing Plant Development and Marketing Authority (MCFDMA)	Members of the Project Management Committee
Makueni County Fruit Processing Plant Development and Marketing Authority (MCFDMA)	Ag. Chief Executive Officer, Operations Manager and Plant Engineers

9.6 List of key documents accessed**List of Documents Accessed**

Makueni County Integrated Development Plan (CIDP) 2018-2022 and 2023-2027
Makueni County Spatial Plan 2019-2029
Audited financial statements of Makueni County from 2016/17 to 2021/22 by the Auditor General of Kenya
County Government's Budget Implementation Review Report from 2016/17 to 2022/23 by the Office of the Controller of Budget
Makueni County Statistical Abstract 2023
2023 Makueni County Fiscal Strategy Paper
2019, Kenya Population and Housing Census
Makueni County Vision 2025
Kenya Integrated Household Budget Survey 2015/2016
Gross County Product 2023 Report
Makueni County Climate Change Fund Regulations, 2015
County Climate Change Fund Inventory Adaptation Investments 2013-2017
Makueni County Bills, Plans and Policies
Public Finance Management Act 2012
Makueni County Integrated Development Plan (CIDP) 2013-2017
Makueni County FY 2023/24 Programme Based Budget and Citizen Budget by the Makueni County Department of Finance and Socio-Economic Planning
The Public Finance Management (County Governments) Regulations, 2015



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