

Green finance **assessment of** Nandi County



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Green finance assessment of Nandi 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 by FSD Kenya with the approval and partnership of The National Treasury, Climate Finance

and Green Economy Unit. The Unit provides technical support to The National Treasury 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 National Treasury and Planning and has a twin mandate of regulating and facilitating the development of capital markets in Kenya.

The County Government of Nandi provided valuable insight on the dynamics and opportunities in their county on green finance. The vision of the County Government of Nandi is to be the leading County in sustainable Socio-Economic Development providing opportunities for all. The County Government of Nandi has a mission to build a strong and viable society based on strong moral values, inclusiveness, and respect for all.

FSD Kenya commissioned Augusto & Co. Limited as the lead consultant for this project. Augusto & Co. is registered as a credit rating agency by the Kenyan and Rwandan Capital Markets Authorities and the Securities Exchange Commission in Nigeria. Augusto & 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.

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 consisted of the following assessments:

- **Economic 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- includes 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 Nandi County

3.1 Macroeconomic analysis

Nandi County (“Nandi”, or the County”) is in the Rift Valley province of Kenya. The County has a total area of 2,884 square kilometres and borders Baringo county to the east, Vihiga and Kakamega counties to the west, Uasin Gishu county to the north, Kisumu county to the south and Kericho county to the south-east.

Agriculture is the main economic activity in Nandi County, with maize and tea being the main crops grown in the area. The County has fertile soils which make it conducive for crop production. Other crops grown in the area include beans, potatoes, coffee, sugarcane and

vegetables. Despite the importance of agriculture in Nandi County, farmers continue to depend on rain-fed agricultural systems, which are erratic and unreliable. This situation has contributed to food insecurity in the County.

Nandi County is also home to some of the world’s most prominent athletes including, Kipchoge Keino, Wilson Kiprugut and Pamela Jelimo. These athletes have put Nandi on the global map and brought international attention to the County. This has helped to boost the local economy through sports tourism and investment in sports infrastructure.



Figure 1: Map of Kenya showing Nandi County

Source: e-Limu

Since 2018, Nandi County has also witnessed an increase in small and medium-sized enterprises which have created employment opportunities for the local population.

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 in table 1 below.

Table 1: Constituencies and Wards in Nandi County

S/N	Constituency	Ward
1	Mosop	Chepterwai, Kipkaren, Kurgun/Surungai, Kabiyet, Ndalat, Kabisaga, Sangalo/Kebulonik
2	Emgwen	Chepkumia, Kapkangani, Kapsabet, Kilibwoni
3	Aldai	Kabwareng, Terik, Kemeloi-Maraba, Kobujoi, Kaptumo-Kaboi, Koyo-Ndurio
4	Tinderet	Songhor/Soba, Tinderet, Chemelil/Chemase, Kapsimotwo
5	Nandi Hills	Nandi Hills, Chepkunyuk, Ol'lessos, Kapchorua
6	Chesumei	Chemundu/Kapng'etury, Kosirai, Lelmokwo/Ngechek, Kaptel/Kamoiwo, Kiptuya

Source: Nandi County Website

3.1.1 Population size and structure

According to the Kenya population and housing census conducted by the Kenya National Bureau of Statistics (KNBS) in 2019, 885,711 people reside in Nandi County. This represents an 18% growth over ten years from the 2009 KNBS census results. The last population and housing census results – KNBS 2019 further reported

the gender diversity of Nandi as 50%-50% for males and females respectively. About 93% of the population reside in a rural area, with the remaining living in the urban areas of the County such as Kapsabet. Per the County's Integrated Development Plan 2023–2027, Nandi County's population stood at 936,183 individuals as at 31 December 2022 and is expected to grow to 982,014 and 1,010,916 by 2025 and 2027 respectively.

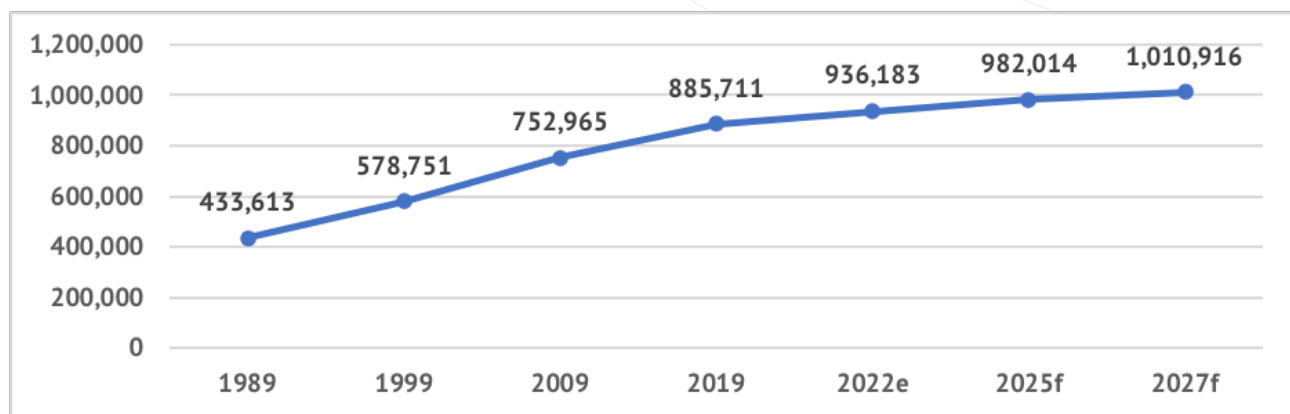


Figure 2: Total Population in Nandi

Source: Kenya National Bureau of Statistics

There is a disproportionately higher concentration of the population between the ages of 0-9 years at 25.1%¹. This implies the County must make deliberate investment efforts to cater for this cohort of the population in terms of reproductive health services and early childhood education.

3.1.2 Level of economic diversification

According to the Nandi County Integrated Development Plan (CIPD) 2023-2027, agriculture stands out as the County's main economic activity. Analysis of the Gross County Products (GCP) reports by the KNBS from 2020 to 2022, show Nandi's agricultural activities contributed over 50% of the County's GCP over the 3 years. Crop farming and animal husbandry form the main activities of the County's agricultural practices. Large scale maize farming makes the County a vital component of the country's food basket. In addition, the GCP 2023 report outlines other industries such as tourism,

agro-processing, transport, construction, finance and insurance, real estate, ecotourism wholesale and retail trade, and education, among others as contributors to the County's economy.

Nandi County Annual Development Plan (ADP) 2023 – 2024 records the key product quantities and values for the financial year ended 30 June 2022. For the period July 2021 – June 2022, the amount of milk produced by dairy cattle was 121.5 million Kgs worth Ksh 3.6 billion, while the quantity of meat from beef cattle was 1.8 million Kgs worth Ksh 504.0 million. In the same fiscal year, the County produced 1,899,000 bags of 90 kg each of maize worth Ksh 4.75 billion and 181,000 tons of tea worth Ksh 4.3 billion. The tea production for the twelve months ended June 2022 was carried out on 19,920 hectares of land². Nandi tea farmers specialize in the growing and processing of world-renowned, high-quality Kenyan tea. Nandi tea is marketed and consumed all over the world for its unique character and flavour, deep colour and

¹ 2019, Kenya Population and Housing Census

² Nandi County Annual Development Plan 2021/22

thick liquoring attributes. Cattle farmers in Nandi County have diversified livestock breeding by engaging in goats, sheep, pigs and poultry farming³. Bananas, Irish potatoes, tomatoes, cabbage and kale are among the significant horticultural crops grown in the County; avocados are mainly grown for both local and international markets.

Rainfall in the Northern parts of the County varies from 1,300mm to 1,600mm annually, however, rainfall in the Southern half of the County, which is impacted by atmospheric conditions in the Lake Basin, can reach 2,000mm annually⁴. Climate models using two Representative Concentration Pathways (RCPs10) indicate that there may be a chance of a massive spike in drought stress between 2021 and 2065⁵. A decrease in the number of wet days during the long rain season of early March up to the end of June is also anticipated⁶. The County has experienced climate variability and

change, among many other things, prolonged dry spells, and a lack of adequate rainfall. This adverse climate-related situation is largely the result of global warming and human activities like farming on hilltops, burning charcoal, and sand harvesting.

3.1.3 Macroeconomic variables

Nandi County contributed 1.6% of the national gross domestic product (GDP) in 2022 according to the Gross County Product (GCP) 2023 report. The County's GCP grew by 17.3%, up from Ksh 164.69 billion in 2021 to Ksh 193.18 billion in 2022. Nandi's GCP is expected to rise in the short to medium term due to the initiatives aimed at boosting agricultural production, such as subsidizing fertilizer and the construction of dams. Therefore, we expect Nandi's Gross County Product to rise to Ksh 212.5 billion by the end of 2024.

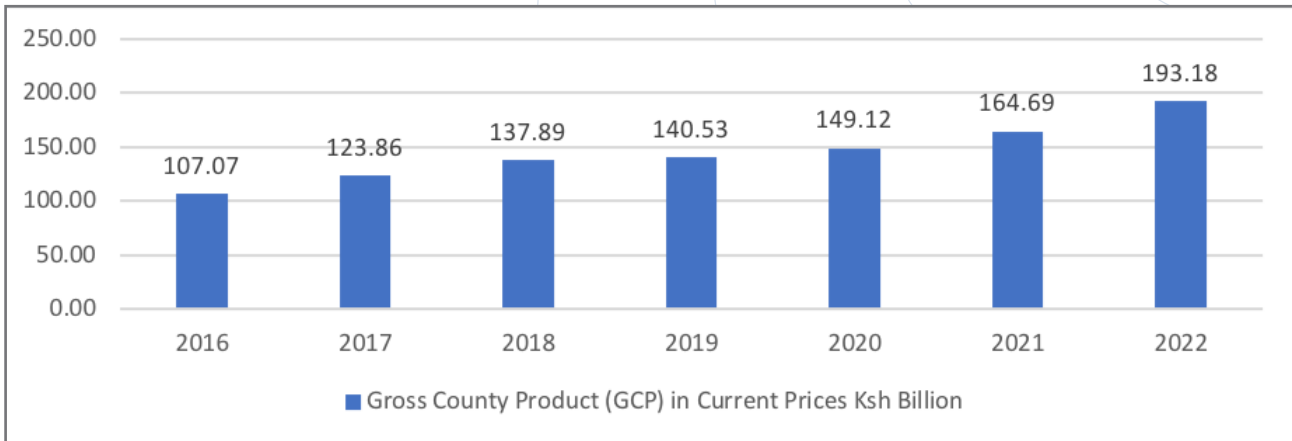


Figure 3: Nandi Gross County Product (GCP) in current prices

Source: Gross County Product 2021 Report, Kenya National Bureau of Statistics (KNBS)

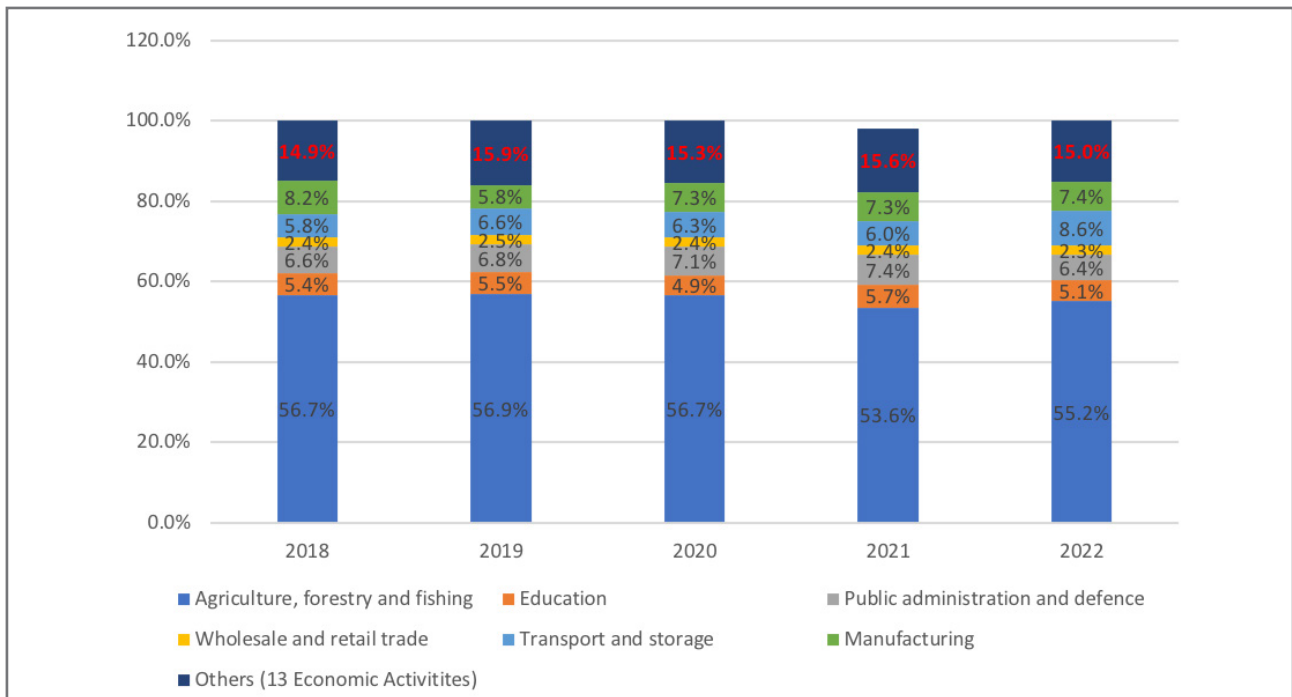


Figure 4: Gross County Product contribution by economic activity

Source: Gross County Product 2021 Report, Kenya National Bureau of Statistics (KNBS)

³ Nandi County Annual Development Plan 2020/21

⁴ Nandi County Integrated Development Plan 2023 - 2027

⁵ Nandi County Integrated Development Plan 2018 -2022

⁶ MoALFC. 2021. Climate Risk Profile for Nandi County. Kenya County Climate Risk Profile Series. The Ministry of Agriculture, Livestock, Fisheries and Co-operatives (MoALFC), Nairobi, Kenya

The county's economic performance in most sectors was largely affected by the Covid-19 pandemic. With the relaxation of the pandemic containment measures, economic activities have revived and we expect further propulsion in the near to medium term. This will lower business risks and uncertainties, allowing the County's economy to rapidly expand. Economic strategies and programs are anticipated to boost social welfare and security, accelerate growth and create jobs. In the short term, Nandi County is working towards completing and operationalizing all existing projects as well as paying off any past-due obligations, both current and historical expenditures. In the long term, the County government's main priorities are realizing the goal of vision 2030 and the transformation agenda.

Key sectoral analysis

Agriculture

Agriculture is one of Kenya's key economic sectors and it accounts for 20% of the Country's Gross Domestic Product (GDP).⁷ In 2022, Nandi's agriculture sector accounted for 55.2% of the GCP.⁸ The sector is a major foreign exchange earner for both Kenya and Nandi County. In recent years, the County has implemented numerous initiatives to boost production as well as to improve household food security, nutrition and the commercialisation of agriculture through value addition. The county has rehabilitated and restored several inactive cattle dips in each ward to enhance livestock health and output. Through the purchase of over 71,600 semen straws, breeding services have been improved. Plant breeding programs are continuously striving to increase crop yields. Despite high levels of crop and animal husbandry, unfavourable weather in different parts of the County has slowed the growth of the overall production volume. Consequently, the agricultural sector has been impacted by rising input costs, leaf rust infestation and the conversion of agricultural land to real estate. It is our view that the wider adoption of agricultural technologies, agricultural research and extension services, market access initiatives by the County and the deployment of irrigation systems will lead to increased output in the near to medium term.

Transport and storage

In the financial year ended 30 June 2022, this sector accounted for 8.6% of Nandi's GCP, higher than the 8.0% recorded in 2021. The marginal growth in the sector was a result of the rise in economic activities in Nandi County that spurred demand for transportation services. In addition, during the fiscal year 2021/22, the County graded 400 km of roads, gravelled 190 km of roads and installed 1,405 m of culverts⁹. Furthermore, the sector has witnessed an increase in activities and as such we project further growth in activities and contribution to GCP in the near to medium term.

Manufacturing

Manufacturing accounted for 7.4% of the county's GCP¹⁰ in 2022. Investments in agro-processing plants

for products like milk and tea have been backed and promoted by the Nandi County Government. Milk, tea, maize and coffee are the principal raw materials used by agro-processors in the County. One of the County's flagship projects is the Nandi Cooperative Creameries, Kabiyeet which is undergoing construction and is expected to be completed within the next 12 months. In addition, milk chilling buildings are being built in each ward to assist dairy farmers with the preservation of their milk. In our view, there is huge potential for growth in this sector. For instance, this economic segment has witnessed marginal growth over the last four years to 7.4% of Nandi's GCP in 2022 (FY 2019/20: 5.8%). However, the growth of agriculture in Nandi as the manufacturing subsector highly depends on the output of crop farming and animal husbandry as inputs for processing.

Public administration and defence

According to the KNBS GCP report 2023, the sector contributed 6.4% of Nandi's GCP in 2022. This sector oversees the support and coordination of government activities, prudential management of public finances, coordination of sectoral development plans, and delivering an effective and efficient public service.

Education and training

The education and training sector accounted for 5.1% of the County's GCP in 2022 (2021: 5.7%). We note that Covid-19 containment measures greatly disrupted the academic calendar which forced students to miss more than half of the 2020 school year. The sector plays a critical role in shaping the County's economy through the provision of required training and skills needed to match the growing Nandi labour market. Even though parents' lower income makes it challenging to sustain their children financially through prompt payment of tuition, the government's ongoing spending on this sector through capitation, provision of infrastructure that meets the requirements of the Competency-Based Curriculum (CBC) and the issuance of bursaries is expected to result in growth in the near term.

Wholesale and retail trade

Despite the growth in rural markets in the County, only 2.3% of Nandi's 2022 GCP was generated by the wholesale and retail trade sector. There is a need for initiatives that will broaden access to goods and services to improve the sector's performance. To encourage demand and sector growth, the Nandi County Government will need to formulate policies that will attract private sector investments such as the provision of basic infrastructure and enabling tax environment that will boost trade.

3.1.4 Level of infrastructure

The availability of reliable, dependable and reasonably priced infrastructure and services is crucial to a society's socioeconomic standing and general well-being. The Nandi County government has made significant investments in various sectors to enhance its service delivery over the past few years.

⁷ Central Bank of Kenya Agriculture Sector Survey January 2023

⁸ 2021 Kenya National Bureau of Statistics Gross County Product report.

⁹ Nandi County Annual Development Plan 2023/24

¹⁰ 2022 Kenya Bureau of Statistics Economic Survey

In the transport and infrastructure sector, road developments have increased connectivity and accessibility with the most improved motorable conditions. The County has improved rural access and mobility by gravelling 190 Kms and grading 400 Kms of roads using the County's machinery, rented machinery and the Road Maintenance Levy Fund (RMLF) Programme of the National Government. In a bid to further increase connectivity, the County department of transport and infrastructure in the FY 2021/22 opened 100 kms of new roads and constructed 15 bridges¹¹. Under the Road Maintenance Levy Fund Programme in Nandi County, over 1,200 km of roads have been earmarked for gravelling while circa 1,500 km are being graded with plans to open new access routes over 300km across the County. Nandi plans to increase the number of newly opened roads from 435.5 km to 909.4 km, the distance of maintained roads from 3,095.3 km to 5,184 km, and the count of footbridges from 25 to 48 over the short to medium term.

There are seven commercial banks in the bustling towns of Nandi Hills and Kapsabet, including ABSA Bank Kenya PLC, Family Bank, Equity Bank, Kenya Commercial Bank (KCB), National Bank and Co-operative Bank as of the end of 2022. Naivas, Tiryo and Jubilee supermarkets are the main retail and shopping facilities available in the capital city of Kapsabet. These large-scale supermarkets are supplemented by numerous small shops that are found in various parts of the County. Through County and National government funding, streetlights have been installed in major towns and markets across Nandi. This is expected to promote a 24-hour economy and improve security throughout the County. According to the County's 2018 -2023 CIDP, Nandi has three microfinance banks among them is the Kenya Women Finance Trust (KWFT). Additionally, there are four Savings and Cooperative Societies (SACCOs) in Nandi with the largest being for farmers and teachers.

There was 1 referral hospital, 6 Sub-County Hospitals, 128 dispensaries and 13 health centres in the County as at the end of June 2022¹². With a doctor-to-population ratio of 0.51: 10,000¹³, more healthcare facilities must be built to meet the needs of the County's citizens. According to the Nandi County Integrated Development Plan (CIPD) 2018 -2023, there are 2,462 Early Childhood Development (ECD) Centres, 832 primary schools, 115 secondary schools, 15 registered vocational training centres and 19 colleges. Nandi also has one public university - the Koitalel University College in Mosop Subcounty and one private university - the University of Eastern Africa, Baraton located in Kapsabet town.

The Chepkiit Waterfall, Banjoge Game Reserve, Kobujoi Forest in Aldai, Kingwai Swamp and Koitalel Arap Samoei Museum are a few of the tourist attractions in Nandi County. A tiny population of animals, including monkeys, leopards and snakes, live in the Banjoge Game Reserve. Most of Nandi's population lives in Bungalow homes. Corrugated iron roofing accounts for almost all home roofs.

¹¹ Nandi County Annual Development Plan 2023/24

¹² Nandi County Annual Development Plan 2023/24

¹³ Nandi County Annual Development Plan 2023/24

3.2 Fiscal assessment

3.2.1 Governance structure

The 2010 Constitution of Kenya, stipulates the roles and mandates of the county governments. Nandi County Government consists of two arms, namely the County Executive and the County Assembly. 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. Another devolved function is the exercise of executive authority under Article 183 of the Constitution which provides for the roles of the county executive committee as follows:

- 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;
- 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 regular reports on matters relating to the county. Under the Fourth Schedule of the 2010 Constitution of Kenya, the devolved sectors and activities 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 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.

Table 2 below highlights the key personnel in the County executive arm of Nandi County:

Table 2: Key County Executives in Nandi County as at 31 March 2023

S/N	Name	Designation
1	H.E. Hon. Stephen Araap Sang	Governor
2	Dr. Yulita Mitei Cheruiyot	Deputy Governor
3	Mr. Alfred Lagat	CECM – Department of Trade, Industrialization & Enterprise Development
4	Eng. Drice Kibet Rono	CECM - Department of Transport, Public Works and Infrastructure Development
5	Mr. Hillary Kiptanui Serem	CECM - Department of Finance and Economic Planning
6	Ms. Ruth C. Koech	CECM – Department of Health and Sanitation
7	Mrs. Scolastica J. Tuwei	CECM – Department of Education, Sports, Youth Affairs, Culture and Heritage
8	Mr. Isaiah Keter	CECM – Department of Administration, Public Service and ICT
9	Dr. Bernard Araap Lagat	CECM - Department of Agriculture and Cooperative Development
10	Mr. Philemon Kiptoo Bureti	CECM - Department of Lands, Physical Planning, Housing, Environment, Water, Natural Resources and Climate Change
11	Dr. Francis Sang	County Secretary

Source: Nandi County Website

The county assembly is vested with the legislative authority of county laws, general oversight of the County Government and Representation of the people. Nandi County consists of 30 elected Members of County Assembly (MCAs) from different Assembly Wards, 18 nominated MCAs representing special interests such as persons with disability and the youth as prescribed by an

Act of Parliament, and the Speaker who is ex-officio. The head of the County Assembly is the Speaker, who is also the Chairman of the County Assembly Service Board.

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

Table 3: Nandi County elected Members of the County Assembly as at 31 March 2023

S/n	Elected Member of County Assembly (MCA)	Ward
1	Hon. Hassan Majani	Kabwareng Ward
2	Hon. Eliud Kirwa	Terik Ward
3	Hon. Trufosa Jelagat	Kemeloi-Maraba Ward
4	Hon. Mathew Kiprotich	Kobujoi Ward
5	Hon. Isaac Yitzhak	Kaptumo-Kaboi Ward
6	Hon. Davies Boor	Koyo Ndurio Ward
7	Hon. Julius Kipruto	Chemundu / Kapngetung Ward
8	Hon. Sarah Rubety	Kosirai Ward
9	Hon. Julius Kipkosgei	Lelmokwo / Ngechek Ward
10	Hon. Josphat Kiptoo	Kaptel / Kamoiwo Ward
11	Hon. Geoffrey Imbuchi	Kiptuiya Ward
12	Hon. Wilson Kipkirui	Chepkumia Ward
13	Hon. Eliud Kirongo	Kapkangani Ward
14	Hon. Benjamin Kerich	Kapsabet Ward
15	Hon. Emmanuel Kipchumba	Kilibwoni Ward

S/n	Elected Member of County Assembly (MCA)	Ward
16	Hon. Lucy Jepkemei	Chepterwai Ward
17	Hon. Gideon Kipkemei	KipKaren Ward
18	Hon. Ezra Kipchichir	Kurgung Ward
19	Hon. Walter Kiplagat	Kabiyet Ward
20	Hon. Nicholas Kipkorir	Ndalat Ward
21	Hon. Cyrus Kipkoech	Kabisaga Ward
22	Hon. Silas Kipkemboi	Sangalo Ward
23	Hon. Raymond Kipkoech	Soba Ward
24	Hon. Paul Kipkemboi	Tinderet Ward
25	Hon. Douglas Martin	Chemase Ward
26	Hon. Korir Edwin Kipchumba	Kapsimotwo Ward
27	Hon. Edwin Kiprop	Nandi Hills Ward
28	Hon. Jogn Kiprotich	Chepkunyuk Ward
29	Hon. Isaiah Maina	Ol'lessos Ward
30	Hon Ricard Kipkosgei	Kapchorwa Ward

Source: Nandi County Website

3.2.2 Finances of the Nandi County Government

Based on the Office of the Controller of Budget FY 2022/2023 Report, Nandi County Government recorded total revenue of Ksh 8.06 billion at the end of the fiscal year 2022/23, a 9.7% increase from the previous period of Ksh 7.27 billion. In FY 2022/23 the County received Ksh 6.99 billion as the equitable share of the revenue raised

nationally, Ksh 200.74 million as own-source revenue, Ksh 310.33 million as conditional grants and had a cash balance of Ksh 553.64 million. The County's own source revenue which is considered the most sustainable decreased by 27.2% in FY 2022/23 compared to Ksh 275.66 million realised in FY 2021/22 and this was 53.8% of the annual target. This decline is attributed to weak revenue collection systems and non-optimal collection in major revenue streams

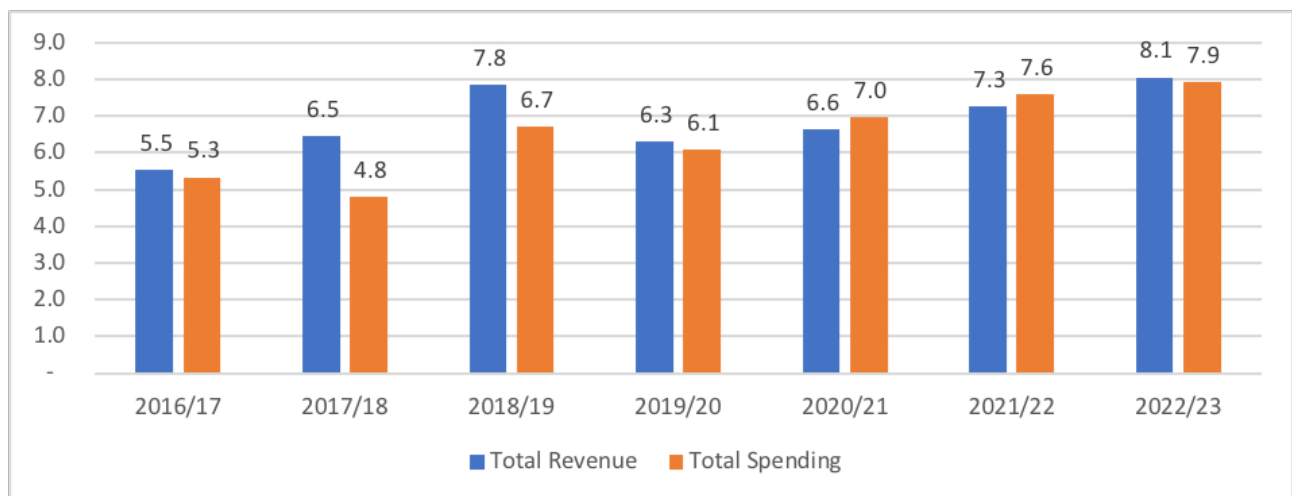


Figure 5: Government revenue vs spending of Nandi County (2017 - 2023) - Ksh' Billions

Source: Office of the Controller of Budget

The county spent Ksh 7.93 billion on development and recurrent programmes during the reporting period. This expenditure represented 111.7% of the total funds released by the Office of the Controller of Budget (COB) and comprised Ksh 1.97 billion and Ksh 5.96 billion on development and recurrent programmes respectively.

Expenditure on development programmes represented an absorption rate of 82.1%, while recurrent expenditure represented 97.5% of the annual recurrent expenditure budget, based on the Controller of Budgets performance report for FY2022/23.

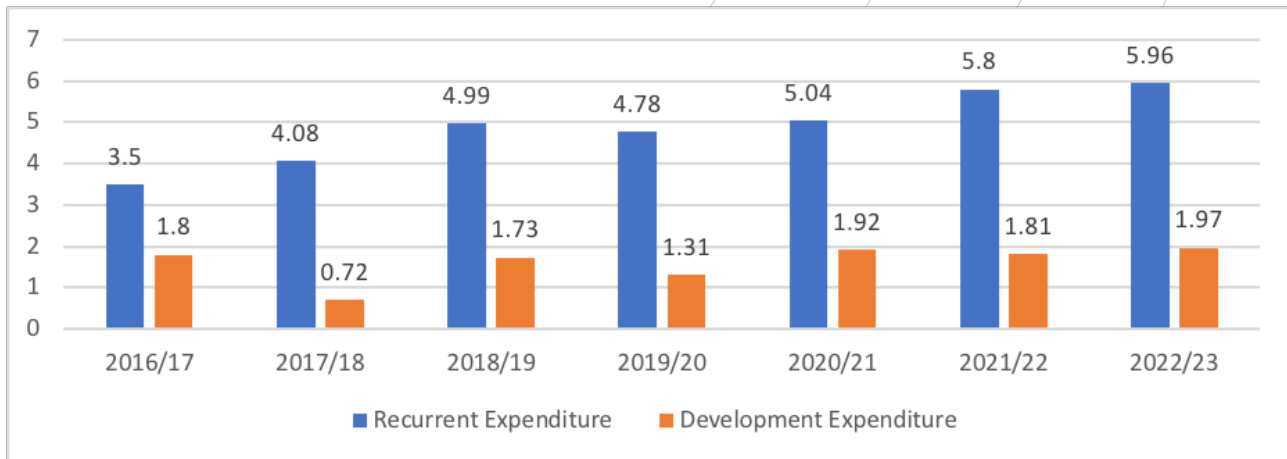


Figure 6: Breakdown of Nandi County Government spending (2017-2023) – Ksh' Billions

Source: Office of the Controller of Budget

Analysis of expenditure by economic classification for the financial year 2022/23 indicated that the County Executive spent Ksh 3.27 billion on employee compensation, Ksh 2.03 billion on operations and maintenance and Ksh 1.95 billion on development activities. Similarly, the County Assembly spent Ksh 372.98 million on employee compensation, Ksh 296.47 million on operations and maintenance and Ksh 21.4 million on development activities.

3.2.3 Revenue collection mechanism

Counties have automated their revenue management processes to generate adequate revenues that can sustain their administrative and development obligations to the citizens which currently cannot be met by the fiscal transfers from the National Government. In June 2016, Nandi County Government implemented a revenue collection and management system (RCMS) which was integrated with the Global Positioning System (GPS) mapping of business premises across the County to boost own source revenue collection. Mapping of traders has simplified revenue collection and ultimately assisted in the provision of services such as training and supporting infrastructure based on the needs of traders, concentration or lack thereof of certain business categories.

3.2.4 Nandi county debt profile

Nandi County has not taken debt before and therefore did not have any debt balances in its financial statement for the financial year ending 30 June 2023. At the beginning of the period under review, the County's pending bills amounted to Ksh 743.29 million. During the fiscal year 2022/23, Nandi County cleared pending bills amounting to Ksh 565.32 million, consisting of Ksh 174.24 million for recurrent expenditure and Ksh 393.08 million for development programmes. The Auditor General of Kenya reported that eligible pending bills as of 30 June 2023 stood at Ksh 177.97 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 Nandi County FY 2021/22 budget:

1. Late submission of financial reports by the County Treasury to the Controller of Budget affected the timely preparation of the budget implementation report. The report was received on 21st August 2023.
2. The underperformance of own-source revenue at Ksh 200.74 million against an annual projection of Ksh 373.23 million, representing 53.8% of the annual target.
3. Diversion of funds by the County Treasury and weak budgeting practice, as shown in Table

3.215 Nandi, List of Development Projects with the Highest Expenditure, where the County incurred expenditure over approved exchequer issues and above budget allocation in several departments.

4. A high wage bill of Ksh 3.64 billion, accounted for 45.9% of the total expenditure in FY 2022/23, thus constraining funding to other programmes.
5. Use of manual payroll. Personnel emoluments amounting to Ksh 372.98 million were processed through the manual payroll, accounting for 6.7% of the total payroll cost. The manual payroll is prone to abuse and may lead to the loss of public funds where there is a lack of proper controls.

4

Credit risk assessment of Nandi County

4.1 Rating rationale

- Augusto & Co. hereby assigns a **“B+ ken”** shadow credit rating to the County Government of Nandi (“Nandi County”, “Nandi” or “the County”). The assigned rating reflects the county’s stable political environment, modest financial flexibility owing to low leverage and favourable climatic conditions for commercial tea plantations. However, the rating is tempered by the County’s weak own source revenue (also known as internally generated revenue) which accounted for 3% of total revenue over the last three fiscal years, high personnel expenses at 45.2% of revenue, significantly above the 35% limit set by Regulation 25 (1b) of the Public Finance Management (PFM) Act, continued reliance 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.
- Nandi County is well known for tea plantations which provide the raw material for the County’s vibrant tea processing industry. Crop farming (for major crops such as maize, beans, potatoes, coffee, sugarcane and vegetables) and animal husbandry form the main activities of the County’s agricultural sector. According to the 2023 Gross County Product (GCP) report by the Kenya National Bureau of Statistics, Nandi County’s GCP was estimated at Ksh193.2 billion, representing about 1.5% of the Country’s GDP. The County is currently implementing several initiatives to boost agricultural output through the provision of an enabling environment, effective support services, sustainable natural resource base management and smallholder farmer productivity.
- In the financial year ended 30 June 2023 (FY 2022/23), Nandi County recorded total revenue of Ksh 8.06 billion which was 11% higher than the prior year, mainly due to the rise in the equitable share of income from the National Government. The County’s own-source revenue (OSR) declined sharply by 27%

year-on-year to Ksh200.7 million representing a low 2% of total revenue. This decline is attributed to weak revenue collection systems and non-optimal collection in major revenue streams such as land rates, cess and parking fees. Nandi County plans to upgrade the revenue system to boost interconnectivity between the collectors, county sectors and collecting agents to improve OSR collections in the medium term. Notwithstanding, Nandi, similar to most counties continues to be significantly reliant on the equitable share disbursements from the National Government through the Exchequer which accounted for 87% of revenue in FY2022/23.

- In the financial year ended 30 June 2023, Nandi County reported a total expenditure of Ksh7.9 billion (FY2021/22: Ksh7.6 billion), comprising recurrent (75%) and development expenditure (25%). The County’s personnel cost (including payroll costs of the County Assembly) continues to be the largest cost component representing 45.2% of total revenue in FY 2022/23, which is higher than the 35% limit set by Regulation 25 (1b) of the Public Finance Management Act (County Regulations), 2015. Although this compares better to Laikipia County (56%) and Embu County (50.3%) it is higher than Kirinyaga County (43%), Makueni County (42.1%) and Kisumu County (42%) and as such requires improvement. In the same vein, Nandi County’s overhead cost-to-revenue ratio of 25% in FY2022/23 and three-year average (FY2020/21 – 2022/23) of 21%, requires improvement in our view.
- In FY 2022/23, Nandi County spent Ksh 1.9 billion on development activities which represented 25% of total expenditure - lower than the 30% minimum requirement as enshrined in Section 107 (2b) of the PFM Act of 2012. Going forward, we expect the County to moderately increase capital spending in the short term in line with the FY 2023/24 Budget development expenditure of circa Ksh 2.97 billion (accounting for 33% of the Budget). This is expected to facilitate the completion, equipping and operationalization of priority

projects aimed at the socio-economic transformation of the County as highlighted in the County Integrated Development Plan (CIDP) 2023 - 2027. However, we note that Nandi County's reliance on the Exchequer distributions which are susceptible to delays as well as the paucity of funds at the National Government level are some of the constraints in achieving this goal.

- As at the end of the 2022/23 financial year (30 June 2023), Nandi County did not have any third-party borrowings either directly or through contingent liabilities. However, the Government of Nandi County had outstanding payables (pending bills) arising from contracted goods and services of Ksh178 million, reflecting a significant reduction from the pending bills balance of Ksh743 million in the prior year. Going forward, Nandi County intends to access medium to long-term financing to execute development projects across the water, public infrastructure,

healthcare and agro-processing sectors which are expected to stimulate the growth of the County economy and build resilience for sustainable development and prosperity.

- Although Nandi plans to enhance revenue management processes to generate adequate local revenues, we believe that fully automating revenue collection by establishing a one-stop collection portal would minimize leakages as well as support the growth of OSR in the medium term. Furthermore, we expect Nandi to continue to enjoy National Government support due to its unique position as one of the largest contributors to the tea export revenue for the government as well as its critical social service and economic development mandate of 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 Nandi.

Strengths

- Stable political environment
- Satisfactory financial flexibility on account of low leverage profile
- Rich tourism potentials
- Favourable climatic condition suitable for growing tea in commercial quantities

Weaknesses

- Significant dependence on centrally distributed revenue by the Exchequer which are not timely
- Qualified audit opinions over the last five years
- High personnel expenses significantly above regulatory threshold
- Low own source revenue which requires improvement

Opportunities

- Youthful population accounting for almost 50% of active labour workforce
- Deepening of own source revenue using automated collection systems
- Scaling Tea plantations and processing facilities

Challenges

- Susceptibility of centrally distributed revenue by Exchequer due to global and macroeconomic headwinds
- Adverse climate impacts due to the changing climatic condition on account of human activities
- Weakened agricultural productivity on account of low rainfall during the long rains season and a delay in the short rains

Figure 7: Strengths, Weaknesses, Opportunities and Challenges

4.2 Financial condition review

Analysts' comments.

- Nandi County prepares its financial statements in line with the International Public Sector Accounting Standards (IPSAS) cash basis.
- We have analysed the financial statements of Nandi County over the three years FY 2020/21 to 2022/23 relying on the Office of the Controller of Budget report on the County Government's Annual Budget Implementation Review Report and the available Nandi County Executive financial statements.

Revenue profile

Nandi 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), Nandi County's total revenue rose by 11% to Ksh 8.06 billion from the prior year mainly due to a higher equitable share of income from the National Government. We note positively that the County received Ksh6.99 billion as the equitable share of the revenue raised nationally (representing 100% of the budget). However, conditional grants and own source revenue receipts were below the budget projections leaving the County's revenue performance at 94.6% based on the Office of Controller of Budget FY2022/23 Report.

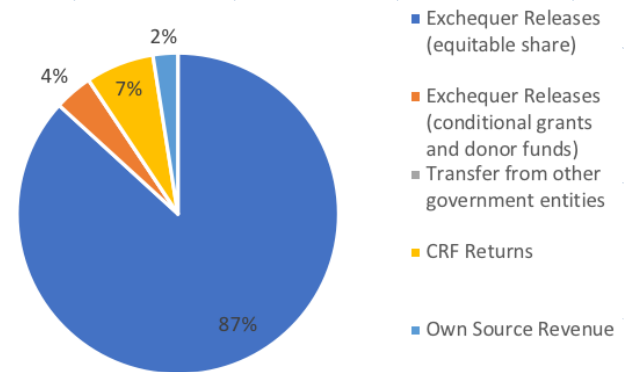


Figure 8: Breakdown of Nandi County's Revenue - FY 2022/23

Based on our analysis, Nandi's equitable share of income distributed by the Exchequer in FY 2022/23 rose by 9% year-on-year (YoY) to Ksh6.99 billion and accounted for 87% of total revenue. Furthermore, Ksh310.3 million was received by the County as conditional grants, which was significantly lower than the budget, and represented 4%

of total revenue, while returns to the County Revenue Fund from the prior year's unutilized balances stood at Ksh553.6 million (FY 2021/22: Ksh327.7 million) and accounted for 7% of total revenue. Table 4 below shows the details of centrally distributed funds received by Nandi 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)	5,380.5	6,413.6	6,990.9	7,305.3
Exchequer releases (Conditional grants and donor funds)	547.0	237.6	310.3	458.0
Transfer from other government entities				
CRF Returns	460.0	327.7	553.6	800.5
Total Centrally Generated Revenue	6,387.5	6,978.9	7,854.8	8,563.8

Source: COB Budget Report for FY2020/21 and 2022/23 and Nandi County's FY2023/24 Approved Budget

In the fiscal year ended 30 June 2023, Nandi County's own-source revenue (OSR) declined by 27% YoY to Ksh200.7 million representing a low 2% of total revenue. This decline is attributed to weak revenue collection systems, non-optimal collection in major revenue streams such as land rates, cess and parking as well as leakages due to internal controls and undercharging in some areas. To overcome these challenges, the County has embarked on mapping business enterprises in all urban areas to create an inventory for targeted evidence-based enforcement. Also, the Nandi County Revenue Department intends to update the valuation rolls for rating purposes and upgrade the revenue system to boost interconnectivity between the collectors, county sectors and collecting agents. Notwithstanding the aforementioned, Nandi like most counties, is significantly reliant on the disbursements from the National Government through the Exchequer to operate and we do not see this changing in the near to medium term.

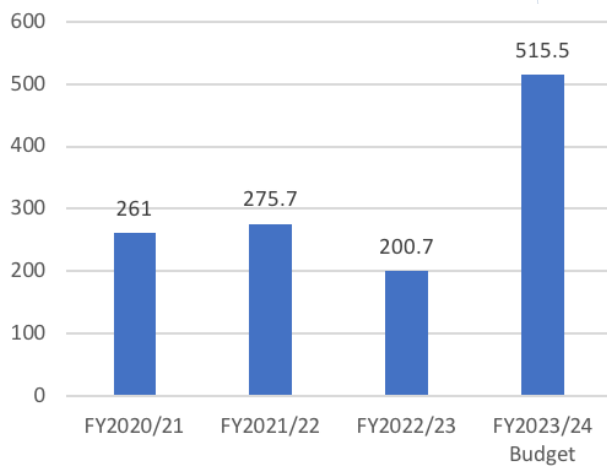


Figure 9: Own Source Revenue Ksh'millions

Based on the FY 2023/24 budget, Nandi County intends to generate a total of Ksh9.1 billion with equitable share from the National Government accounting for 80% of the total revenue, while conditional allocation from Exchequer (5%), consolidated revenue funds returns (9%) and County Own Source Revenue (6%) contributing the balance. The projected revenue is based on an estimated rise in the equitable share distributions by the Exchequer as well as a marked increase in own source revenue. In our view, unlikely macroeconomic headwinds and attendant disruptions to centrally distributed funds by the national government will have dire consequences on the County's ability to function optimally due to the significant reliance on the quarterly Exchequer receipts, which are susceptible to delays.

Going forward, the County intends to continue with its revenue mobilization and expenditure prioritization policy geared towards economic recovery and growth. Also, Nandi County intends to enhance the automation of revenue management processes to generate adequate local revenues that can sustain administrative and development obligations to the citizens. We believe that fully automating revenue collection by establishing a one-stop online portal would minimize leakages as well as support the growth of OSR in the near to medium term.

In our opinion, Nandi County's overall revenue profile is weak and requires improvement, especially in terms of fully automating its own source revenue collection.

Expenditure profile

Nandi 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, Nandi County reported a total expenditure of Ksh7.9 billion (FY 2021/22: Ksh7.6 billion), comprising recurrent (75%) and development expenditure (25%). Furthermore, a breakdown of Nandi County's expenditure revealed that Ksh3.26 billion was spent on employee compensation (representing 41% of total expenditure) while Ksh2.02 billion on operations and maintenance (accounting for 26%) and Ksh690.9 million as transfers to County Assembly (covering employee compensation, operations and maintenance and development activities) and other agencies with only Ksh1.95 billion allocated for capital development expenditure in FY 2022/23.

Further analysis revealed that Nandi'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 45.2% 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. Nonetheless, we note that this compares better to Laikipia County (56%), Embu County (50.3%) and Taita Taveta County (50%) but higher than Kirinyaga County (43%), Makueni County (42.1%), Kisumu County (42%), Nairobi City County (38%) and Vihiga County (37.8%). Furthermore, we recognise that the County's personnel wages and benefits have been higher than the statutory threshold over the last three years and we consider this a concern due to the impact on the County's financial flexibility. On account of higher inflationary pressures on operations and maintenance cost (i.e. overhead cost) over the last three years, Nandi County's overhead cost-to-revenue ratio of 25% in FY2022/23 and three-year (FY 2020/21 – 2022/23) average of 21%, requires improvement in our view.

Based on section 116 of the PFM Act, 2012, county governments are allowed to establish and allocate monies from the budget to public funds with approval from the County Executive Committee and the County Assembly. In FY 2022/23, Nandi County allocated Ksh223.2 million to established funds (Nandi County Education Fund, Nandi County Executive Car Loan and Mortgage Scheme Fund and Nandi County Assembly Mortgage Fund), representing 2.6% of the County's overall budget for the

year based on the Office of the Controller of Budget FY 2022/23 Report.

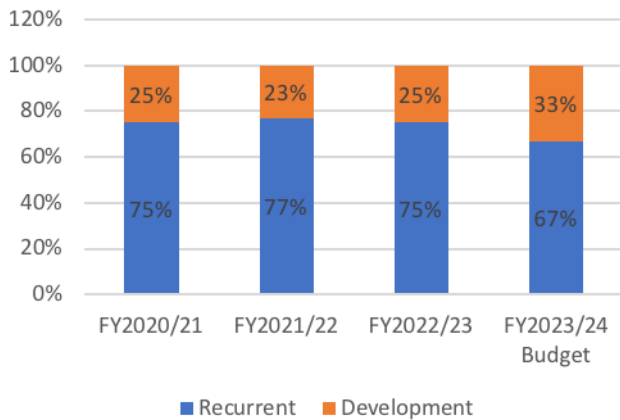


Figure 9: Own Source Revenue Ksh'millions

In FY 2022/23, Nandi County spent Ksh 1.9 billion on development activities which represented 25% of total expenditure - lower than the 30% minimum requirement as enshrined in Section 107 (2b) of the PFM Act of 2012. Augusto & Co. notes that the County's development expenditure as a proportion of total expenditure over the last three years (average of 24%), fell short of the statutory minimum and as such requires improvement.

Based on the FY2023/24 budget, recurrent expenditure is estimated at Ksh 6.1 billion representing 67% of the overall budget. This consists mainly of compensation to employees of Ksh 3.9 billion and operation and maintenance costs of Ksh 2.2 billion. Furthermore, the FY 2023/24 development expenditure of circa Ksh 2.97 billion (accounting for 33% of the Budget) is expected to facilitate the completion, equipping and operationalization of priority projects aimed at socio-economic transformation of the County.

Going forward, we expect Nandi County's personnel expenses to revenue ratio to remain above the 35% threshold due to the staff salary upward adjustments, while the overhead cost-to-revenue ratio is projected to rise on account of higher inflationary pressures on administrative and office expenses. Whilst we expect Nandi to moderately increase capital development expenditure in the near term on the back of planned infrastructure projects as earmarked in the County Integrated Development Plan (CIDP) 2023 – 2027, lack of alternative sources could constrain the attainment of this objective.

In our opinion, Nandi County's overall expenditure profile is weak and requires improvement, particularly in moderating payroll expenses which has breached the 35% statutory threshold.

Debt profile

County governments in Kenya can borrow funds for short-term to long-term purposes in line with the Public

Finance Management Act 2012. The County Treasury is expected to include in the 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 the end of the FY2022/23 fiscal year, Nandi County did not have any third-party borrowings on its book either directly or through contingent liabilities. However, as at 30 June 2023, the County had outstanding pending bills of Ksh178 million, reflecting a significant reduction from the pending bill's balance of Ksh743 million as at 30 June 2022. Going forward, the County government is keen to access medium to long-term financing to execute development projects such as the completion of the Nandi Cooperative Creameries Kabiyeet, Coffee Milling Factory Tinderet and Kapsabet Mother and Child Hospital, amongst others.

In our view, Nandi County has a low leverage. However, the County's financial flexibility to meet future debt obligations is weak given its low own source revenue.

4.3 Rating outlook

The FY 2023/24 Nandi County Budget is geared towards completing priority projects aimed at a socio-economic transformation of the County towards improving the livelihoods of its citizens. The FY 2023/24 budget has prioritized the completion and operationalization of the following flagship projects: Hospital Complex with Mother and Baby Unit in Kapsabet County Referral Hospital; Nandi Cooperative Creameries (NCC) in Kabiyeet; Nandi Textile and Apparel Unit (NATEX) in Mosoriot; Eliud Kipchoge Modern Athletics Training Camp in Kapsabet; Coffee Milling Plant in Tinderet; establishment of an industrial park in Chemase; and Construction of Affordable housing in collaboration with the National Government.

As part of the strategic growth objectives, Nandi County intends to improve its internally generated revenue in the near term with an OSR projection of Ksh515.5 million in line with its programme-based budget estimates for FY2023/24. In our view, Nandi County has huge potential to generate higher local incomes on the back of automating revenue collection streams for licenses, land rates, business permits and market fees as well as tourism-related fees.

Based on the aforementioned, we hereby assign a "B+Ken" rating and attach a stable outlook to the Nandi County Government of Kenya.

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 as well as the impact of COVID-19 has 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.

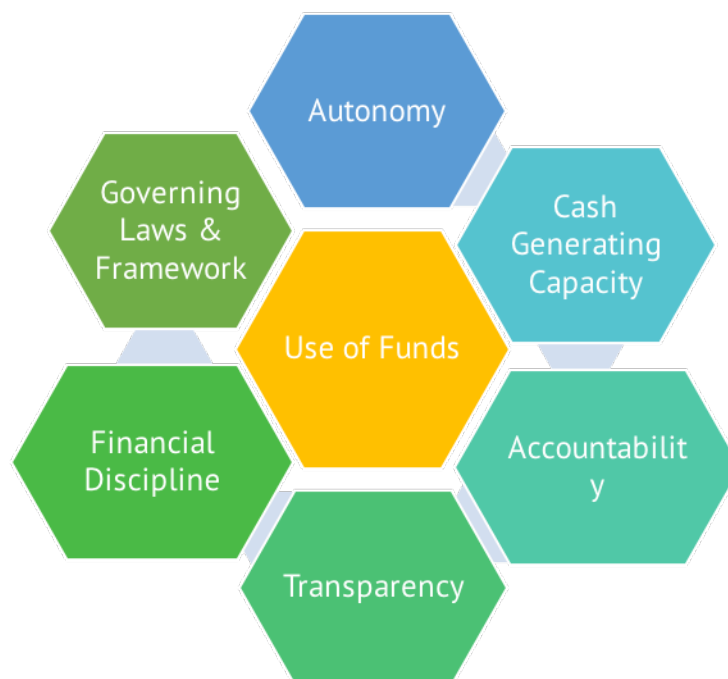


Figure 11: Pre-requisites for counties financing

Source: Agosto & Co. Research

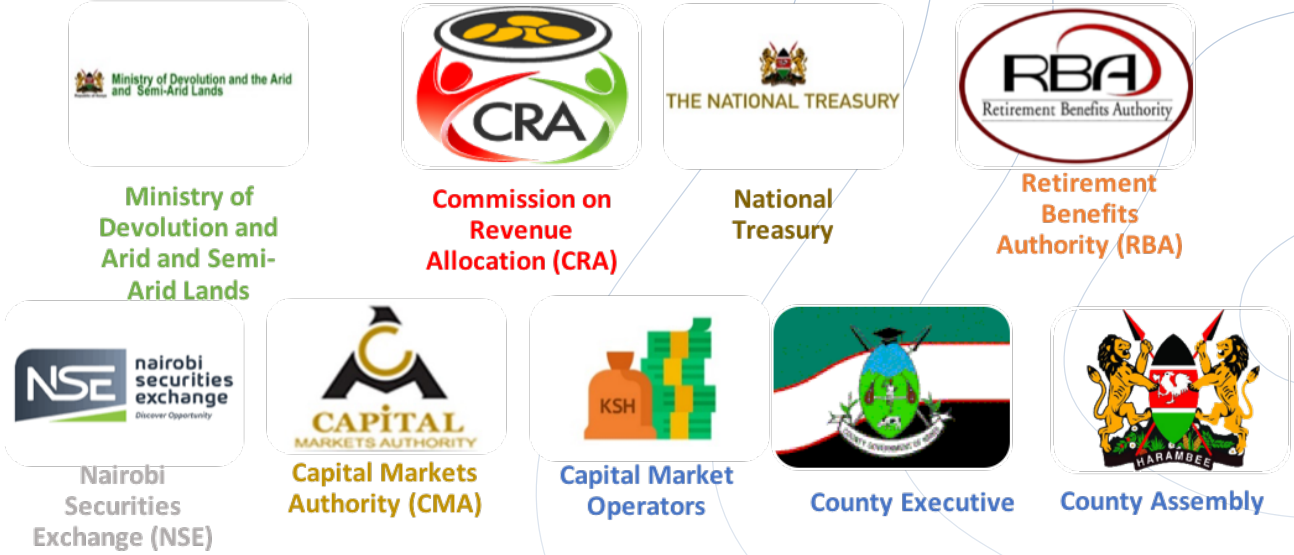


Figure 12: Critical Stakeholders to support county's financing framework

Source: Agosto & Co. Research

5

Green asset and activity assessment

Nandi County was subjected to a green asset identification and risk analysis to understand the availability of green assets and investment opportunities. The approach used involved field visits to Nandi 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 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) and finance and budget
2. Civil Society Organisations (CSOs) and private actors in the climate-finance space in the County.
3. Community Representatives.

Figure 13 below outlines the activities for the visit to Nandi County:

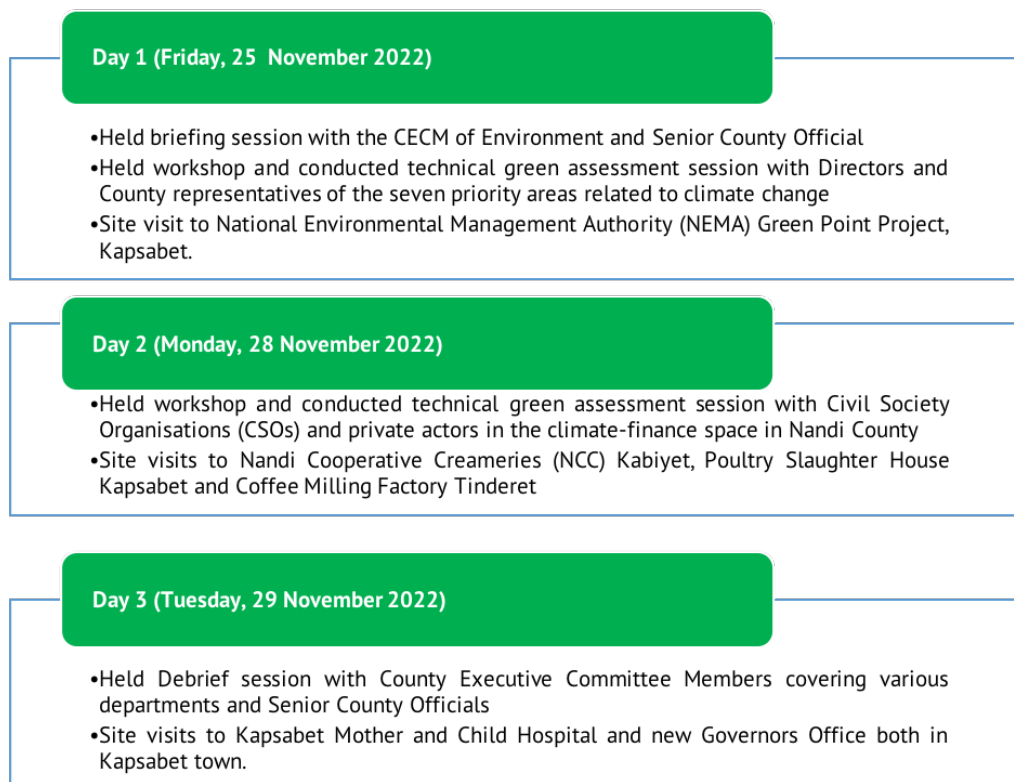


Figure 13: Nandi County schedule of activities



Figure 14: Tree planting at the NEMA green point building - day 1.



Figure 15: Tree planting at the NEMA green point building - day 1.



Figure 16: Site visit to NEMA green point building in Kapsabet - day 1.



Figure 17: Participants at day 1 workshop with senior county officials.



Figure 18: Briefing session with senior county officials (day 1).



Figure 19: Participants from the briefing with senior county officials (day 1).



Figure 20: Site Visit to Poultry Slaughter House Kapsabet (day 2) – installed equipment.



Figure 21: Site Visit to Poultry Slaughter House, Kapsabet (day 2).



Figure 22: Site visit to Nandi Co-operative Creameries Kabiyet.



Figure 23: Site visit to Nandi Co-operative Creameries Kabiyet .



Figure 24: Participants at day 2 workshop – CSOs, CBOs and private sector operators.



Figure 25: Participants at day 2 Workshop – CSOs, CBOs and private sector operators.



Figure 26: Debrief session with Nandi County executives (day 3).



Figure 27: Site visit to Coffee Milling Factory Tinderet (day 2).



Figure 28: Debrief session with Nandi County executives (day 3).



Figure 29: Site visit to New Governor's Office (day 3).



Figure 30: Site Visit to Kapsabet Mother and Child Hospital (day 3).



Figure 31: Site visit to Coffee Milling Factory Tinderet (day 2).

5.1 Preliminary green priority areas

The following thematic areas emerged as key priority

sectors for Nandi County following the discussions and interactions with various stakeholders and assessments conducted during the workshops and site visits.

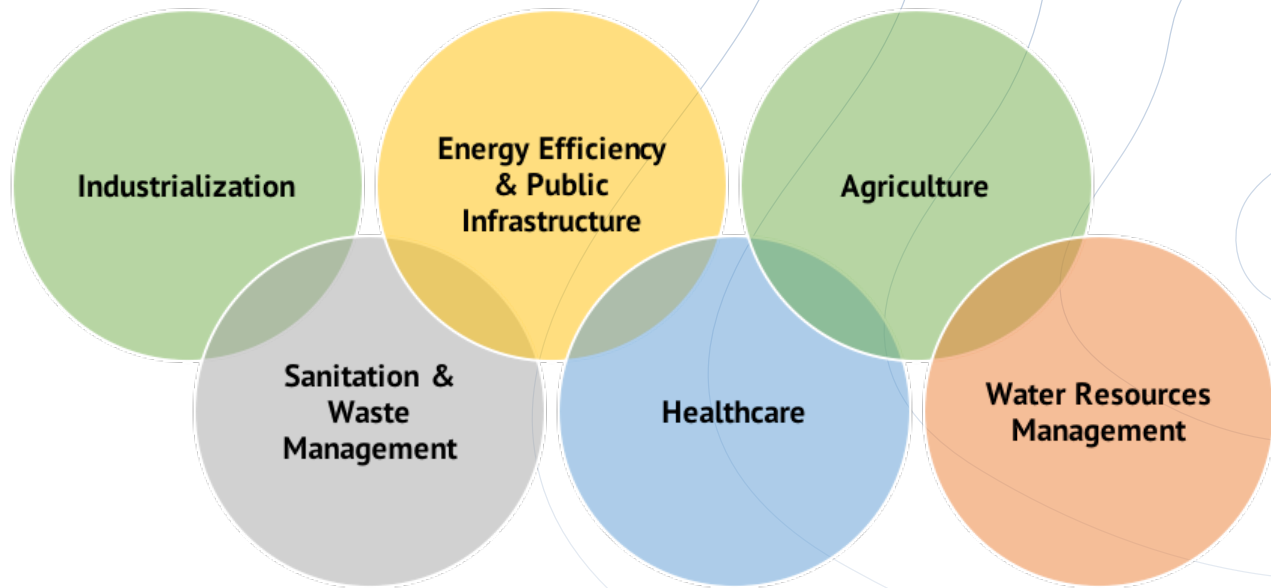


Figure 32: Nandi County key green priority areas

Source: Agosto & Co. Research

These sectors are also identified as priority areas in the Nandi County Integrated Development Plan (CIDP) 2018 - 2023, which the County Government is keen to see implemented in the near to medium term.

Industrialisation

Nandi County focuses on industrialization especially agro-processing. The County through the department of Trade, Investment and Industrialization in partnership with the Export Processing Zone Authority (EPZA) plans to employ the use of green infrastructure in the development of an industrial park at Chemase and build a sustainable export processing zone which will attract industries to the County. Additionally, the County is setting up modern markets in various towns in Nandi such as Kaptel, Ndurio, Kilibwoni and Kabiemit to increase trading activities. The provision of infrastructure is expected to result in cost savings and support economic growth in the County in the long term.

Sanitation and waste management

The County collects an average of 20 tonnes of solid waste per day in major urban centres. This represents 20% of the waste that is generated. Waste that is generated in the County is not segregated at the source, nor is it recycled. Both at the household level and the dumping sites, the waste disposal system adopted is crude dumping and burning. Hazardous medical waste from health facilities is disposed of by the use of incinerators, which are not environmentally friendly. The County intends to improve waste disposal by developing sewerage and waste management systems in urban areas. This will promote sustainability practices,

conserve natural resources as well as reduce negative environmental impacts. Nandi has identified the Kaimosi Dumping and Recycling Plant as an alternative solution in this sector that can revolutionize waste management in the County.

Energy efficiency and public infrastructure

Nandi County Government plans to generate energy by investing in renewable energy sources such as solar and wind power due to the abundance of sunlight and wind in the County. Currently, only 1.24% of the people of Nandi County use solar as a source of energy. The County intends to use its own generated energy across its offices, schools, street lights, markets and hospitals to effectively reduce high energy bills and dependence on the national grid.

Healthcare

Healthcare is a major concern for citizens of Nandi given the deplorable state of the over 148 healthcare facilities. However, the County is currently undertaking a flagship project of a new Kapsabet Mother and Child Hospital which is at 40% completion as of November 2022 and has the potential to incorporate green infrastructure (including water, trash, and energy) to enhance the delivery of sustainable services. By implementing green infrastructure, the hospital will become eco-friendly, reducing environmental impact and contributing to a more sustainable future. The County had previously relied on its annual budgetary allocation to finance the hospital construction but is now open to alternative financing to finalise the construction, equipping and staffing of the hospital.

Agriculture

This sector is composed of five subsectors namely: crop production, livestock production, veterinary services, fisheries and cooperative development. Nandi County Government seeks to increase food and nutrition security, commercialize agriculture and effectively initiate efficient marketing systems. The County government intends to collaborate with the national government, development partners and experts to improve agriculture productivity. Part of the proposed projects under the CIPD is to facilitate the construction of an Eco-Tea Factory at Nandi Hills and Aldas as well as the completion of Nandi Cooperative Creameries Kabiyet and the Coffee Processing Plant in Tinderet. These projects could use renewable energy sources to reduce their reliance on fossil fuels and significantly lower their carbon footprint. Tea, coffee and milk production requires large amounts of water. Implementing sustainable water-saving technologies and practices like drip irrigation systems, rainwater harvesting and wastewater treatment can help reduce water consumption and minimize water pollution. In addition,

coffee and tea production can have a significant impact on the environment due to the use of pesticides and fertilizers, deforestation and soil erosion. Implementing sustainable agricultural practices like organic farming, integrated pest management and agroforestry can help minimize the environmental impact.

Water resource management

The County 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 and irrigation water. The Nandi CIDP 2023 – 2027 notes that the proportion of households with access to water improved from 35% to 37% over the 2018 – 2022 period. Nandi County through its wholly-owned Kapsabet Nandi Water and Sanitation Company Limited has identified a few flagship projects in the water sector which it intends to implement including a water harvesting, distribution and management plant at the Kiben Dam & Amai River.

5.2 Green assets identified

Overview of green assets in Nandi County



Figure 33: Map of the distribution of green assets in Nandi County

Source: Nandi County Website

Nandi County's altitude is generally high and lies between latitude 0034N and longitude 34045E to the West while the Eastern boundary reaches Longitude 35025E.

Nandi County comprises five distinct topographic features:

1. The rolling hills to the West
2. The Tinderet Volcanic mass which is an extension of the Kenya highlands and has in some places, rocks protruding out to a height of 2,500m

3. The King'wal Swamp
4. The Nyando escarpment on the Southern border
5. The Kapsabet plateau stands at 2,020m above sea level and comprises an undulating land surface traversed by various rivers among which are rivers Kipkaren, Kimondi and Birei and the Tinderet highlands

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

Table 5: Green assets in Nandi County

Water Bodies	Hills	Forests
River Amai	Nandi Hills	Nandi South Forest
River Kipterges	Tinderet Hills	Nandi North Forest
River Kimondi		Tinderet Forest
River Mokong		Serengonik Forest
River Kingwal		Kimondi Forest
Lake Rankale		Kapchorua Forest
River Kundos		
River Kipkaren		
River Yala		
River Ainabng'etuny		

Source: Nandi County Integrated Development Plan 2023- 2027

Water bodies

Nandi County is endowed with various water resources. There are six permanent rivers in the County namely Kipkaren, Kingwal, Kundos, Mokong, Yala and Ainabng'etuny. The County also has numerous permanent springs scattered across all the sub-counties. Shallow wells have also been dug especially in Nandi hills, Emgwen, Chesumei and Mosop sub-counties. Dams done during the colonial era are also found in parts of Mosop and form major catchment areas for many streams. Despite having a dense network of rivers, wells, dams and springs, access to clean water is a challenge across the County with the mean distance to the nearest portable water point at 0.5 Km. Nandi County Government plans to launch various water schemes in a bid to transform the County socially and economically.

Forests

The County has six gazetted forests that cover an area of 61,339.82 Ha. The largest forest cover in the County is the South Nandi Forest which is a tropical rainforest and covers an area of 20,150 Ha. The North Nandi Forest which is also a tropical rainforest covers a total of 16,004 Ha and extends from Nandi Central to Nandi North.



Figure 34: Nandi Hills

Source: Augusto & Co. Research

Nandi County has faced challenges related to forest logging. There have been campaigns to enhance community awareness about the importance of afforestation and forest conservation. Therefore, 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 Yala was identified as one of the major green assets that is shared with four counties. In the Western part of Kenya, the river is shared by Nandi, Kakamega, Kisumu and Siaya counties. The river experiences perennial conflicts concerning access to its water resources. Augusto & Co. notes 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 35: River Yala

Source: CHAMSMEDIA

Green assets owned by the national government

The Kenya Forest Service, a state-owned corporation oversees the Nandi Hills Forests which has two forest blocks, the South Nandi Forest and North Nandi Forest. Nandi County has a variety of wildlife species found in the Bonjoge Game Reserve, Kingwal Swamp and the South Nandi Forest. The main wildlife species found in the Bonjoge Game Reserve include baboons, velvet monkeys, gazelles and Dik-dik. Sitatunga is a rare brown antelope found in the attractive Kingwal wetland and is a rare animal that can be of great attraction to both domestic and international tourists. Furthermore, the County hosts the cervel cat species and over 247 recorded bird species including the black and white casqued Hornbill, Great cormorant, African darter, Hamerkop, Sacred ibis, Glosy ibis, Egyptian goose, African Goshawk, Tawny eagle, helmeted Guinea fowl, ross turaco, African wood owl, Speckled mousebird, African Paradise flycatcher and the silver bird mainly found in the South and North Nandi north forests, caves and escarpments.

5.3 Suggested green projects

Based on the thematic areas identified and Augusto & Co.'s assessment, the following green projects were

proposed for consideration. Appendix 9.2 has the list of all the potential green projects identified during the workshop and assessment.

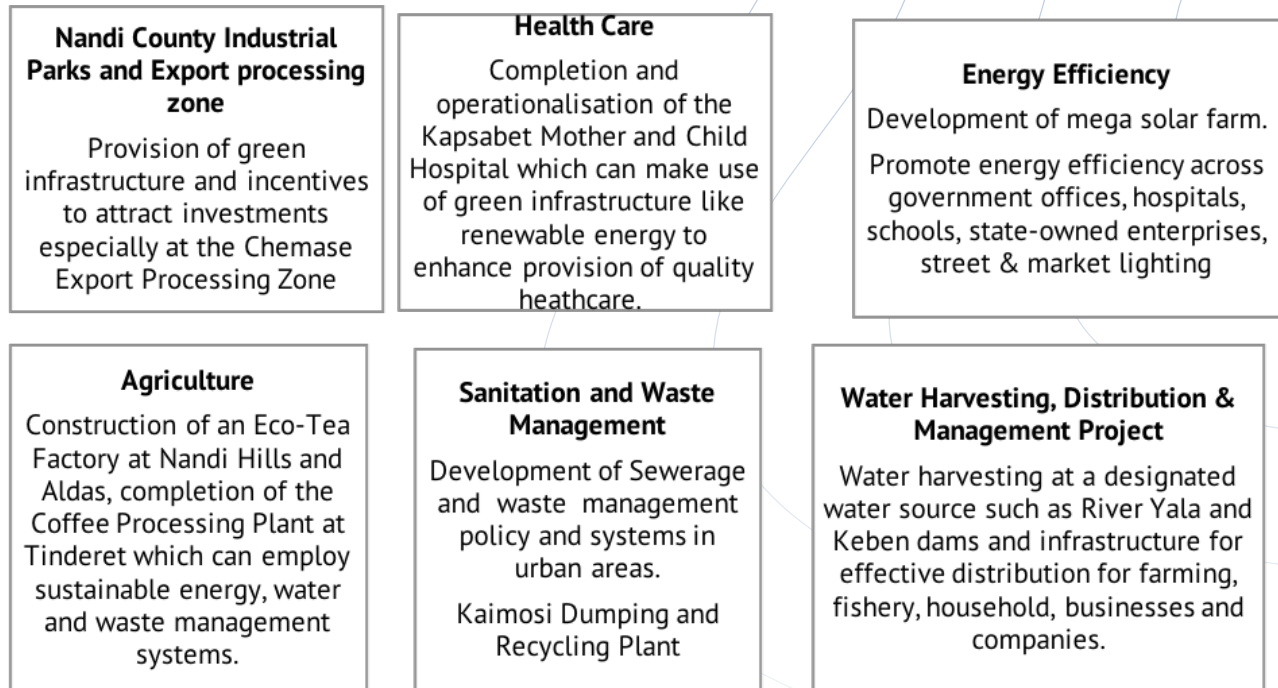


Figure 36: Nandi County Suggested Green Projects

Source: Augusto & Co. Research

Nandi County Industrial Parks and Export Processing Zone

The economic development plan of Nandi County is characterized by the encouragement of value-added industrialization, which aims to process and convert extracted raw resources and agricultural products into finished goods. As a result, the County is eager to establish Industrial Parks, which will serve as the foundation of a booming export-focused trade and urban-based commerce. The locations for the industrial parks are yet to be identified. Based on the Nandi CIDP 2018 – 2023, Chemase town will host the export processing zone. The County must offer incentives to potential investors and green infrastructure to attract investment to the processing zone. By Employing green infrastructure in the form of water, energy and waste management in the construction of the industrial parks and the export processing zone, Nandi County will be promoting SDG 9's goals. SDG 9 focuses on industry, innovation and infrastructure that aligns with industrialization. This will increase access to technological advancement and provide for innovation and entrepreneurship.

Water resource management

There are various County water supply schemes and community-operated projects catering for the water needs of the citizens, though insufficient. The major scheme is the Kapsabet Water Supply Scheme with a storage capacity of 1995m³/day, which supplies water to Kapsabet Town and its environs. This water scheme is operated and managed by Kapsabet Nandi Water and

Sanitation Company Limited which is a wholly-owned entity of the County. Going forward, Nandi County intends to solarise water pumping at the existing water scheme to reduce the high electricity bills associated with harvesting and distribution of water from the current source. Also, the County plans to harvest new water sources, especially from River Yala to serve the growing water demand from its citizens. Furthermore, the National Government intends to construct the Keben dam which will have a storage capacity of 8000m³/day and a transmission main of 50km to Nandi hills, Baraton University and Kapsabet town to enhance water supply in Nandi. This project when completed will benefit over 50,000 households mainly in Nandi and Kapsabet town including the surrounding neighbourhoods and those along the distribution lines. Augusto & Co. notes that the initiatives by the County to improve access to clean water for the residents of Nandi mirror the targets of SDG 6 (Clean water and Sanitation for all).

Energy efficiency

Energy consumption in Nandi County is on the increase as a result of population growth. The main sources of household cooking energy in the County are firewood, charcoal and paraffin. Wood fuel forms the main source of energy with over 90 per cent of the population (urban and rural) depending on it. This has however contributed to vegetation degradation and an increase in related health complications amongst the population due to the incessant logging activities in the forests. The utilization of renewable energy sources in the County is still relatively low at 1.24%¹⁴.

¹⁴ Nandi County Integrated Development Plan 2018-2022

The county has a high potential for solar power generation as The African Development Bank Group conducted an environmental and social impact assessment on Kisumu and Nandi Counties in 2018 to support the development of a solar park. The project involves the design, construction and operation of a 50 MWp (40 MWac net capacity) solar PV power project, 5 km from the centre of Kopere in Kisumu County near Nandi, under a 20-year 'take or pay' Power Purchase Agreement (PPA). This project which will benefit both the Kisumu and Nandi counties falls under the Renewable Energy Feed-in-Tariff (FiT) policy in Kenya. This project will also involve the construction of a 33/132 kV substation and a 1.8 km transmission line with a way-leave of 40 m (20 m on either side of the line) connecting to the existing 132 kV Lessos-Muhoroni transmission line to evacuate the electricity to the national grid operated by Kenya Power and Lighting Company (KPLC)¹⁵. According to the Global Energy Monitor (GEM), the solar farm was still under construction as at the end of December 2022.



Figure 37: NEMA Green Point Building in Kapsabet Town

The energy to be generated from the solar parks can be channelled to government offices, schools, state-owned enterprises, streets and markets towards promoting a 24-hour low-carbon resource-efficient economy and will enhance the Country's plans to become more energy efficient. The NEMA Green Point Building in Kapsabet is an example of a project that is 100% solar-powered and also has the embodiment of rainwater harvesting which ensures that the building is self-sufficient for power and water without reliance on any government utility. We believe that this type of project can be scaled across the County given the huge amount and quality of sunlight monthly. Nandi County's efforts to solarize



Figure 39: Kapsabet Mother and Child Hospital - exterior view

government buildings, schools and hospitals will help achieve SDG 7 (Affordable and Clean Energy). Utilizing sustainable energy sources is essential for environmental sustainability, social development and economic progress. In addition, clean energy sources reduce reliance on fossil fuels and mitigate the negative impacts of climate change.

Sanitation and waste management

Based on the Nandi CIPD 2018 – 2023, the sanitation and waste management in the County is low with only 22% of the population having access to sanitation facilities. Most of the population relies on pit latrines constructed with wood and iron sheets. In terms of waste management, the County lacks proper infrastructure for waste collection, transportation and disposal. The lack of a functional landfill site has resulted in indiscriminate dumping of waste which pollutes the environment and exposes the citizens to health risks. The County government has established a regulatory framework for waste management to ensure all stakeholders comply with the set standards and guidelines.

To improve solid and liquid waste management, Kapsabet Nandi Water and Sanitation Company Limited (KANAWASCO) is considering transitioning to green waste management services to improve the environment. This will help the company meet environmental regulations on waste disposal as well as reduce leftover impact by converting sewerage into useful products such as fertilizer. KANAWASCO has planned several initiatives including the construction of a new solid waste management facility at Kaimosi and the construction of sewer lines in urban areas like Kapsabet, Nandi Hills, Mosoriot, Kabyet, Kobujoi and Baraton which either have dilapidated or lack sewer facilities. It is our view that the construction and proper maintenance of a reliable sewerage system will improve health and hygiene for the citizens of Nandi, create jobs, particularly for skilled and semi-skilled workers and will enhance the County's effort towards environmental protection. Having a functional sanitation and waste management system will help Nandi County to promote healthy hygiene habits and enhance its resident's overall well-being, which is consistent with SDG 3 (Good health and well-being).

Healthcare

The County's health sector faces several challenges such as inadequate infrastructure, poor staffing and low



Figure 38: Kapsabet Mother and Child Hospital - interior view

¹⁵ Environmental and Social Impact Assessment summary on Kopere solar park power project in Kisumu district, Nandi County Kenya 2018.

levels of funding. According to the Nandi County Annual Development Plan 2023 - 2024, there was 1 referral hospital, 6 Sub-County hospitals, 13 health centres and 128 dispensaries in the County as at the end of June 2022. Over the last three years, Nandi County has prioritized investment in healthcare to improve the average distance to a health facility from the current 7 km to less than 5 km. On the back of this, the County government has constructed and equipped 15 healthcare centres to improve access to services. Furthermore, Nandi is expanding existing hospitals and ambulance services as well as establishing training, internship and placement with medical training colleges for college and university students. There are plans to construct additional health facilities and operationalize those that have stalled within the next 5 years.

The Kapsabet Mother and Child Hospital is a flagship project that could leverage green infrastructure (energy, waste and water) in its development to enhance sustainable service delivery. The hospital which is at 40% completion will have a capacity of 250 beds and will offer specialized services in obstetrics, paediatrics, surgery and gynaecology. Augusto & Co. notes that the availability of funds has stalled the completion of the project as the County Government typically allocates from the annual budget for the project. Based on this financing approach, the expected timeline for the completion of the physical works at the hospital is estimated at 2024, while operationalization is projected at 2026. We expect that once the hospital is completed and functional, access to quality maternal and child health services in the County will improve while the number of motherly and infant mortality cases will reduce in the near term. The successful completion and operationalization of the Kapsabet Mother and Child Hospital will support the County's efforts towards championing SDG 3.

Agriculture

The County's main economic activity is agriculture with maize and tea being the main cash crops. Despite this, the County faces numerous challenges in this sector including post-harvest losses, limited access to credit facilities and a lack of market linkages for farmers. To address these challenges, Nandi County has helped farmers add value to their agricultural produce and also markets them both locally and abroad through promotions by the County's Trade Department. In addition to constructing eco-factories for processing tea and coffee, sustainable poultry slaughterhouses, green model creameries and export processing zones, the County is working on climate-smart agricultural models which it intends to implement across the sub-counties. Increasing food and nutrition security, commercializing agriculture and establishing effective and efficient marketing strategies are all objectives of the sector as enshrined in the CIPD. In our view, all of these efforts and initiatives if successfully implemented will boost the agricultural sector's contribution to the County's economy and improve the livelihood of farmers in Nandi in the near term. Nandi County's agricultural efforts to achieve food security and improve nutrition are in line with SDG 2, which is about ending hunger.

Nandi Cooperative Creameries (NCC)



Figure 40: Nandi Co-operative Creameries – exterior view

This is a dairy processing plant at 92% completion as at the end of November 2022. The project is owned by the Nandi County government and nine dairy cooperative societies (with over 24,000 members) in Nandi. The plant has a processing capacity of 100,000 litres of milk per day. On completion, the creamery will process various dairy products including Ultra-High Temperature (UHT) milk, yoghurt and butter. Augusto and Co. note the project's green capability as the creamery could use solar technology in its energy utility requirement and further recommends sustainable waste management on the NCC'S effluent. Based on our review, the NCC will provide a ready market for the farmer's milk, which will reduce post-harvest losses and improve farmers' incomes both in the near and medium terms. Furthermore, the implementation of the Nandi Dairy Strategic Plan 2019 will see the creamery increase its production capacity and expand its product portfolio to meet the growing demand for dairy products in the County and beyond.

Nandi Poultry Slaughter House



Figure 41: Nandi Poultry Slaughter House - exterior view

The poultry slaughter house was constructed as an initiative of the national government's agriculture rural inclusive project through the Nandi County and is managed by farmers mainly from Chesumei. The birds are expected to be sourced from all over the County. The facility which is 100% constructed and equipped is

awaiting the Kenya Bureau of Standards (KEBS) clearance to start operations. It has the capacity to process 500 birds per hour. This project is expected to increase the income of farmers and create employment opportunities for the people in the County. To enhance sustainability, the Nandi poultry slaughter house can use green technology such as solar panels and energy-efficient

systems. This will reduce the environmental impact of the facility while also lowering operating costs. Augusto & Co. notes that the use of green technology will also demonstrate the County government's commitment to sustainable practices. In addition, the poultry slaughter house will transform the poultry industry in Nandi County and contribute to the growth of the local economy.

6

Risk analysis on suggested green projects

	Climate risks	Environmental risks	Legal risks	Reputational risks	Financial risks
Nandi County Industrial Park and Export Processing Zone	<p>Drought and irregular rains may affect operations requiring water for industrial processes.</p> <p>Floods can damage infrastructure and disrupt production</p>	<p>Improper disposal of waste can cause land and water pollution</p> <p>Deforestation to set up industries can affect ecosystems</p>	<p>Non-compliance with regulations</p> <p>Intellectual property disputes</p> <p>Cross border risks</p>	<p>Greenwashing</p> <p>Allegations of corruption when engaging potential investors in the Industrial Park</p> <p>Exploitative labour risks</p>	<p>Foreign exchange risk.</p> <p>Inadequate funding</p> <p>Diversion of funds</p> <p>Changes in interest rates can affect access to financing and the cost of capital</p>
Healthcare	<p>An outbreak of diseases due to changes in climate could puzzle the hospitals</p> <p>capacity to offer quality services if the facility is not well prepared to manage such a surge.</p> <p>Extreme temperatures can affect the elderly and children making it more difficult to maintain a comfortable temperature inside the hospital</p>	<p>Improper disposal can cause air, water and soil pollution</p>	<p>Malpractice lawsuits due to negligence</p> <p>Non-compliance with data privacy and confidential regulations could lead to litigation due to the unauthorized release of patients' information.</p>	<p>Poor quality healthcare services</p> <p>Negative media coverage as a result of medical errors</p>	<p>Inadequate funding</p> <p>High cost of medical equipment</p> <p>The inability of patients to pay bills and claims by insurance providers</p>

	Climate risks	Environmental risks	Legal risks	Reputational risks	Financial risks
Energy efficiency	<p>Solar panel's efficiency reduction due to dust build-up on panels</p> <p>Variations in solar radiation due to weather changes</p>	<p>Environmental damage from the manufacturing and disposal of solar panels and energy-efficient systems</p> <p>Negative impact on local ecosystem during setting up of solar plants</p>	<p>Changes in government policies regarding tax credits on renewable energy projects</p> <p>Regulatory hurdles during planning, construction and operations of solar plants</p>	<p>Community opposition to the construction of renewable energy plants</p> <p>Loss of consumer confidence in the use of renewable energy if the power generated is not sufficient to meet the consumption demands.</p>	<p>High initial capital</p> <p>Fluctuating energy prices</p>
Sanitation and waste management	<p>Possibility of leakages at the liquid waste channels and flooding during the rainy seasons</p>	<p>Water pollution and contamination from the various activities related to increasing the capacity of sewerage treatment.</p> <p>Air pollution</p>	<p>The likelihood of a poorly conducted environmental impact assessment</p> <p>Legal conflict with the community on disposal of waste mechanism</p>	<p>Lack of public participation in the project location</p> <p>Environmental pollution may cause conflict between the company and the community living nearby</p>	<p>Lack of policy in waste management</p> <p>Diversion and mismanagement of funds</p> <p>The inability of the project to cover operational costs</p>
Water resource management	<p>Drought leading to less or no water</p> <p>Possibility of flooding causing damage to infrastructure and leading to disruption of water supply</p>	<p>Ecological damage caused by water harvesting and distribution</p> <p>Contamination of the harvested water</p>	<p>Water rights and ownership</p> <p>Non-compliance with water and wetland management practices and regulations</p>	<p>Lack of public participation in the project</p> <p>The potential of water quantity and quality disruptions leading to loss of public interest</p>	<p>High infrastructure costs</p> <p>Unforeseen costs</p> <p>Inadequate financing</p>
Agriculture: Nandi Cooperative Creameries	<p>Drought and floods reduce raw materials for the factory</p>	<p>Deforestation</p> <p>Water and air pollution because of the usage of harmful chemicals</p>	<p>Non-compliance with environmental regulations</p> <p>Poorly carried out environmental impact assessments</p>	<p>Poor labour practices</p> <p>Negative media coverage of the negative impact of the factories and plantations on the community in the event of a release of untreated wastewater discharge</p>	<p>Fluctuations in the price of raw materials by the creamery whereby farmers could sell their milk to alternative buyers hence financial losses could be incurred due to decreased production.</p> <p>Low market demand</p> <p>Competition from established market players and brands</p>
Nandi Poultry Slaughter House	<p>Changes in temperatures and rainfall patterns could affect the health and productivity of poultry leading to increased costs and reduced profits</p>	<p>Inadequate treatment and poor disposal of waste could cause water and soil contamination</p> <p>Pesticides and disinfectants could have negative environmental effects if poorly handled</p>	<p>Non-compliance with regulations on food safety and animal welfare</p>	<p>Food contamination could lead to loss of customer</p>	<p>The high initial cost of construction and operationalizing a poultry slaughterhouse</p> <p>Fluctuations in the price of poultry could affect profitability</p>

7 Green finance capability assessment

Agusto & Co. conducted a green finance capability assessment to assess the County government's skills and ability to manage green financial instruments, with a focus on green bonds and related projects. Agusto & Co. notes that there is still a significant knowledge gap among Nandi 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, we believe that the Nandi County government needs to put measures in place to provide capacity building of County staff on climate-related issues.

Based on our review, we note that Nandi County has climate-related laws in place that could aid in the management of the projects and assets identified:

a) The County Climate Change Fund (CCCF) legislation: The County Government of Nandi has prioritized environmental conservation as it seeks to contribute to the goals of the Paris Agreement that is within the United Nations Framework Convention on Climate Change and the Sustainable Development Goals. Nandi County has a County Climate Change Fund (CCCF) legislation 2021 which was formulated under the Public Finance Management Act of 2012 and has committed 2% of the County's annual budget to climate change issues. The 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 CCCF mechanism comprises 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 CCCF mechanism enables the implementation of public good investments that address communities' priorities while supporting the Nandi County government deliver its mandate in realizing sustainable development in the face of climate change.

- b) Nandi County Water Provision Master Plan 2019:** This plan was developed in 2019 to guide the identification and building of viable water projects in Nandi County. It seeks to address the County's challenges, which include acute water shortages caused by frequent droughts, encroachment and degradation of water catchment areas. Agusto & Co. notes the County has made fractional progress towards implementing this plan.
- c) Nandi County Wetlands Management Act 2020:** The policy ensures wise use and sustainable management of wetlands to enhance the sustenance of ecological and socio-economic functions for the present and future generations.
- d) Nandi County Integrated Solid Waste Management Policy 2019:** The policy provides for the improvement of waste management for the residents of Nandi County to enhance better living standards. The policy sets the framework for solid waste generation, management and recycling in the County. The policy has not been implemented due to technical and financial challenges.
- e) Memorandum of Understanding (MOU) among the Counties of Nandi, Kakamega and Vihiga:** This MOU is expected to counter and safeguard the encroachment and destruction of the only tropical forest in Kenya – the Nandi – Kakamega Forest.

Table 6: Nandi 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 Nandi County Climate Change legislation, 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 issues
3	County government familiarity with the Green Bond Framework and requirements	No	Capacity building in the areas of Green Bond Framework is still required
4	County capability in managing green funds (preferably for financial return)	Yes	The County has received funds previously for 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. Most of the County staff in other departments are not well informed on the same.
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	No	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
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	Nandi County has various policies in place which guide the process of coordinating with the national government or agencies. Such as the Nandi County Climate Change Fund Regulations, 2021 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	The County qualifies for FLLoCA funds because it has climate finance legislation in place through the Nandi County Climate Change Fund Legislation 2021 which guides the County on green/climate finance.
5	Has the County successfully received and dispersed FLLoCA funds	Yes	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.



Recommendations

Based on the sessions and workshops with the different stakeholders and assessments of green assets potential, Agosto & Co. hereby posits that Nandi County consider the following in the near term:

Table 7: Recommendations to the Nandi County Government

Section	Recommendations
County credit risk assessment	<ul style="list-style-type: none"> Nandi County's overall revenue profile is weak and requires improvement mainly in terms of automating its own source revenue by establishing a one-stop service collection portal to capture licenses, land rates, business permits and market fees from the large informal sector in a bid to increase internally generated revenue to a sustainable base to cushion future fluctuations in national government revenue. 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. Nandi 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. Nandi County should develop an Asset Registry.
Green asset and activity assessment	<ul style="list-style-type: none"> Nandi County Government should promote sustainable agricultural practices such as crop rotation and reduced tillage which reduces soil erosion, improves soil health and decreases the use of harmful chemicals. The County Government of Nandi needs to fully implement existing policies and regulations such as Nandi County Water Provision Master Plan 2019. The County government should invest in renewable energy such as solar and wind power which will help reduce Nandi's carbon footprint and promote energy efficiency across government offices, schools, hospitals and markets The County should promote the recycling of waste products to reduce the amount of waste in landfills. The County should champion the use of green buildings for new offices, hospitals and industrial parks to enhance the efficient use of resources and promotion of sustainable developments.
County green assets and climate related legislations	<ul style="list-style-type: none"> The County should develop a comprehensive climate change action plan. The County should promote community engagement and education to build public awareness of climate change risks and ways to build resilience. Enforce compliance with established County laws and policies such as climate change policies.
Green finance capability assessment	<ul style="list-style-type: none"> The County can establish partnerships with the private sector to mobilize green finance. Nandi County can build capacity for local institutions to explore green finance such as the Kapsabet Nandi Water and Sanitation Company. The County should promote transparency and accountability in the use of green finances through legislation and governance practices

In our opinion, Nandi 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 for compliance with the Climate Bonds Standards

- Issue green financial instruments such as County Bonds 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, Nandi 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 Nandi (provision or land, infrastructure and incentives) to access the green bond 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, the National Government has a key role to play through the following:

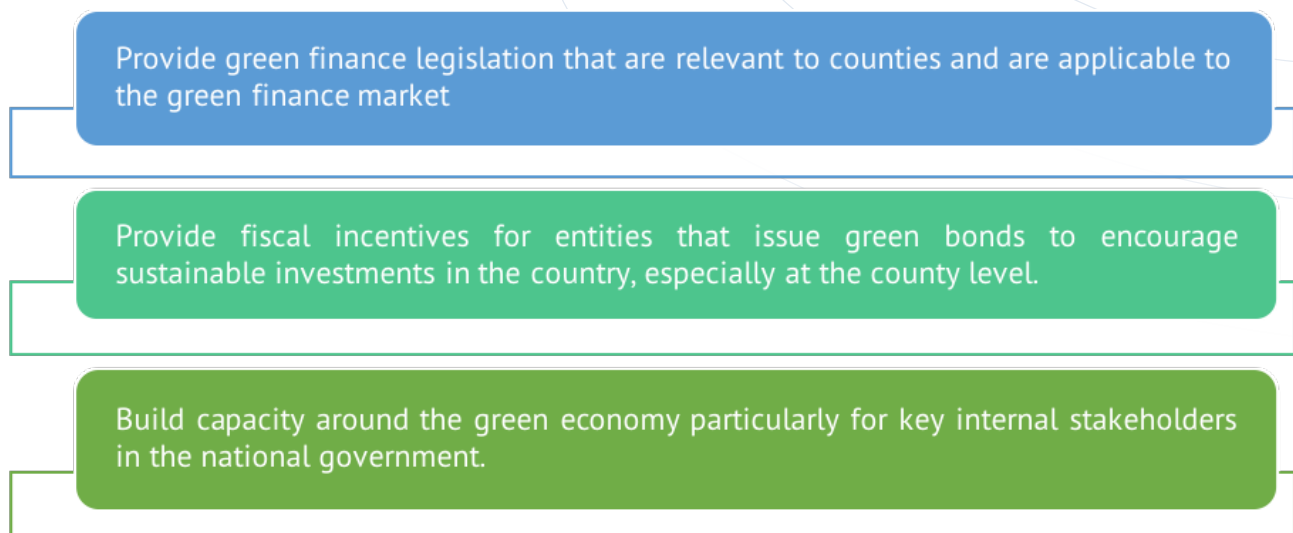


Figure 42: Role of the national government



Appendices

9.1 Nandi County profile summary

No	Indicator	County 2013	County 2021	National 2021
Population and Macroeconomic Outlook				
1.	Estimated County Population	752,965 (KNBS 2009)	885,711 (KNBS, 2019)	1.86% of the total country's population
	Males	376,488	441,259	49.60%
	Females	376,477	444,430	50.30%
	Intersex	0	22	0.02%
2.	Estimated Population Density (persons/km ²)	259	310	82
3.	Persons with disability (%)	2.51	0.33(2017)	2.2
4.	Population living in rural areas (%)	96.1	93.3	68.8
5.	Children (0-14 years) (%)	45.1	39.3	41.1
6.	School going age (4-22 years) (%)	55.9	34.74	68.7
7.	Youth 15-34 years (%)	34.28	31.98	36.1
8.	Labour force (15-64 years) (%)	52.7	56.62	55
9.	Elderly population (over 65-year-old)	3.59	4.06	3.9
10.	Poverty (%)	47.6(KHBIS 2006)	31.5(2015/2016)	36.1
11.	Food Poverty (%)	46.7(2005/6) KDHS	--(2015/2016)	31.9
12.	Multi-dimensional Poverty (%)	--%	--% (2015/2016)	56.1
13.	Stunted children %		(KDHS 2014)	26
14.	Gross County Product (Ksh Million)	77,281	193,180 (2022)	1.6% share of total GDP (2022)
15.	Average growth of Nominal GCP/GDP (%)	--	12.5% (2013-2020)	15.30%
16.	GCP per capita (Ksh)		121,149	179,021.60
Child Health				
17.	Percentage of children under 1 year of age fully immunized	85%	80%	84%
	Child Mortality Rate (CMR)	--	--	--
	Under Five Mortality Rate (U5MR)	39/1000	43/1000	47/1000
Reproductive Health				
18.	Maternal Mortality Rate	408/100,000	300/100,000	400/100,000
	Percentage of deliveries conducted by skilled attendants in health facilities	20%	42.3%	60%
	Percentage of pregnant women attending at least 4 ANC visits	45.3%	24.3% (DHIS 2016)	42%

Public Health				
19.	Latrine coverage	--%	60%	85%
	Open Defecation Free (ODF) rate	--%	--%	10%
Human Resources for Health				
20.	Doctor Population Ratio	1:53,333	0.5:10,000	1:16000.
	Nurse Population Ratio	1: 284	1: 2,120	1:1034
Health care financing				
21.	Health Insurance Coverage	--%	--%	6%
Water Access				
22.	The proportion of HHs accessing water from improved water sources (%)		26%	64.8
23.	The proportion of HHs accessing improved sanitation services (%)		22%	82.5
Lands and Environment				
24.	Tree cover	%	%	12.13%
	Forest Cover	-	26%	8.83%
	Security of Land tenure	%	%	-
Agricultural Production and Productivity				
25.	Share of Agriculture sector contribution to GCP (Gross County Product)	%	57.8%	22.4%
26.	Amount of tea produced annually in metric tonnes	--	181,000	537,800
27.	Amount of milk produced annually in kilogrammes	--	121,500,00	801,911,905

9.2 Three year financial summary – Nandi County Government

REVENUE & EXPENDITURE	2020/2021		2021/2022		2022/2023	
	KES'mns	%	KES'mns	%	KES'mns	%
REVENUE						
Centrally Distributed Revenue						
Share of Exchequer releases (Equitable Share)	5,380.5	81%	6,413.6	88%	6,990.9	87%
Share of Exchequer releases (Donor & Grant Funds)	547.0	8%	237.6	3%	310.3	4%
Other Capital Receipts (other government entities)						
CRF Returns/Reallocation budget	460.0	7%	327.7	4%	553.6	7%
Centrally Generated Revenue (CGR)	6,387.5	96%	6,978.9	96%	7,854.8	98%
County-Owned Source Revenue						
Asset sales	-		-		-	
Investment Income	-		-		-	
Others - licenses, permits, fines & fees	261.0	4%	275.7	4%	200.7	2%
County Own Source Revenue (OSR)	261.0	4%	275.7	4%	200.7	2%
TOTAL REVENUE	6,648.6	100%	7,254.5	100%	8,055.6	100%
Direct Donations and Grants Receipts	-		-		-	
TOTAL REVENUE & GRANTS	6,648.6		7,254.5		8,055.6	
EXPENDITURE						
Transfers (County Assembly, others)	776.8	11%	709.9	9%	690.9	9%
Interest Payments	-		-		-	
Departments Expenditure	6,180.3	89%	6,900.2	91%	7,239.7	91%
TOTAL EXPENDITURE	6,957.1	100%	7,610.1	100%	7,930.6	100%
Department's expenditure comprises						
Personnel costs	3,363.7	48%	3,475.2	46%	3,266.3	41%
Purchase of goods & services	1,052.6	15%	1,670.9	22%	2,025.4	26%
Capital expenditure	1,764.0	25%	1,754.1	23%	1,948.0	25%
Other Payments (contingency, scholarship, subsidies, etc)	-		-		-	
Total Departments Expenditure	6,180.3	89%	6,900.2	91%	7,239.7	91%
Foreign loan balance	-		-		-	
Domestic loan balance	-		-		-	
Total Pending Bills	772.2		743.3		178.0	
AUDITORS OPINION	Qualified		Qualified		Unaudited	

KEY RATIOS	2020/2021	2021/2022	2022/2023
Revenue			
OSR as % of GCP	0%	0%	0%
Centrally Generated Revenue as % of GCP	4%	4%	4%
Total revenue as % of GCP	4%	4%	4%
OSR as % of total revenue & grants	4%	4%	2%
Centrally Generated Revenue as % of total revenue & grants	96%	96%	98%
Growth in Centrally generated revenue	6%	9%	13%
Spending			
Total Expenditure as % of GCP	4%	4%	4%
Non-discretionary expenditure* as % of Centrally generated revenue	65%	60%	50%
Capital expenditure as % of total expenditure	25%	23%	25%
Payroll as % of revenue	51%	48%	41%
Overheads as a % of revenue	16%	23%	25%
Budget balance/revenue	-5%	-5%	2%
Leverage			
Budget balance (Ksh'mns)	(308.56)	(355.56)	125.01
Debt as % of nominal GCP			
Interest payments as % of total revenue			
Principal due as % of Revenue			
Financial flexibility			
Discretionary revenue** as % of total revenue	38%	42%	51%
Net Debt as % of Free Cash Flow ***	-18%	-11%	-14%
Non-discretionary expenditure as % of total expenditure	60%	55%	50%
Outstanding Debt/Revenue			
* 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 Amai River Kipterges River Kimondi River Mokong River Kingwal Lake Rankale River Kundos River Kipkaren 	<ul style="list-style-type: none"> South Nandi Forest North Nandi Forest 	<ul style="list-style-type: none"> Water Sewage Decentralized Treatment Facilities Storm Water Management 	<ul style="list-style-type: none"> Chemase Export Processing Zone. Cold-room and Warehouses Maize Grains Processing Cottage Industries 	<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
Nandi County Government	Director of Environment, Natural Resources and Climate Change Department
Nandi County Government	Deputy Director of Environment, Natural Resources and Climate Change Department
Nandi County Government	Planning Officer
Nandi County Government	Representatives from the County Agriculture Department
Nandi County Government	Environmental Inspector
Nandi County Government	Representatives from the County Finance Department
Nandi County Government	Representatives from the County Energy Department
Kenya Forest Service	County Forest Conservator
Kenya Wildlife Service	Warden
National Environment Management Authority (NEMA)	Environmental Officer
Ministry of Health, Kenya	Representatives from the Health Sector Department

Day 2

Institution Name	Designation of Attendees
Nandi Women Network	CBO Head
Nandi Golden Friends Foundation	Representative
Fast Track Mentors	Founder
Angaza	Director
Freedom of Information	Administrative Officer
Underit Youth Group	Chairman/Chief Executive Officer
Second Chances CBO	CBO Chairperson
Centre for Community Dialogue and Development (CCDD)	Program Officer
Youth for Sustainable Development (YSD)	Treasurer
Kenya Platform for Climate Governance (KPCG)	Coordinator

Day 3

Institution Name	Designation of Attendees
Nandi County Government	Project Manager - Agriculture
Nandi County Government	Environmental Inspector
Nandi County Government	Nandi Chicken Slaughter House Caretaker
Nandi County Government	Environmental Officers

9.6 List of key documents accessed

List of Documents Accessed
Nandi County Integrated Development Plan (CIDP) 2018-2022
Nandi County Integrated Development Plan (CIDP) 2023-2027
Kenya Integrated Household Budget Survey 2015 -16
Audited financial statements of Nandi 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
Nandi County Statistical Abstract 2015
2021 Nandi County Fiscal Strategy Paper
2019, Kenya Population and Housing Census
Nandi County Climate Change Fund Regulations, 2021
Gross County Product 2019 Report
Gross County Product 2021 Report
Gross County Product 2023 Report
Nandi County Annual Development Plan 2019
Nandi County Annual Development Plan 2020
Nandi County Annual Development Plan 2021
Public Finance Management Act 2012
2022 Nandi County Fiscal Strategy Paper
The Public Finance Management (County Governments) Regulations, 2015
KNBS ECONOMIC SURVEY 2022
Report on the County Budget and Appropriations Committee Nandi County - 2022
Nandi-County-Fiscal-Strategy-Paper-for-FY-2022-2023.
Nandi County Programme Based Budget Estimates for FY 2022/2023
Report of the County Budget and Appropriations Committee on the Nandi County Programme Based Budget Estimates for FY 2022/2023
Nandi County Governor's Manifesto
Nandi County Approved FY 2023/2024 Budget



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