Press release. For immediate release

County green finance assessment demonstrates the green finance opportunity at county level in Kenya

- County governments have a crucial role to play in scaling green finance[1] in Kenya, particularly in providing channels through which projects can be identified, aggregated, and funded.
- A key challenge in scaling green finance in Kenya has been identifying green projects across the country, determining which ones should be funded and creating structures through which substantial funds can be channelled to local climate action.
- The county green finance assessment is the first of its kind in the country and has generated actionable insights on what the potential, opportunities and challenges exist at county level in terms of the financing of green projects and assets.
- The assessment will be turned into action through the FSD Kenya county green finance project preparation facility, through which green projects identified by county governments themselves will be prepared and can be funded at scale in a manner that speaks to county development priorities as well as those of the national government.

Nairobi, Kenya - 25th April 2024: Financial Sector Deepening (FSD) Kenya today presented the results of the county green finance assessment.

About the county green finance assessment

The county green finance assessment is related to FSD Kenya's mission to support the development of an inclusive green finance ecosystem in Kenya.

The assessments and report are a result of the partnership, expertise, and work of specialists from FSD Kenya, Agusto & Co., The National Treasury and Economic Planning, The Capital Markets Authority, ADA Consortium, the Nairobi Securities Exchange, and the County Governments of Embu, Kirinyaga, Kisumu, Laikipia, Nairobi City, Makueni, Nandi, Taita-Taveta, Vihiga, and Wajir.

The Constitution of Kenya (2010) devolved important natural resource and environment-related sectors, meaning counties have an important 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.

Green finance instruments such as county green bonds, present an opportunity for counties to generate resources for their development in a green and climate-resilient manner.

[1] 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.

The assessment, carried out between November 2022 and May 2023, evaluated four components in each of the 10 counties[2]:

- **Economic and fiscal assessment** to document 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** to estimate the county government's relative likelihood of defaulting on its obligations from capital raising initiatives - including a shadow credit rating.
- **Green asset and activity assessment** to document availability of green investment opportunities in the selected counties.
- **Green finance capability assessment** to gauge the skills and ability to manage green financial instruments and related projects available in the county.

Key findings

The economic and fiscal profile of counties assessed revealed strengths and challenges. Strengths documented in the assessment include stable political environments in the counties; youthful populations; high mobile banking penetration levels and a market with the presence of alternative financing options. Shared challenges include that most counties assessed represent a relatively low contribution to Kenya's GDP as individual units and have fairly undiversified economies. They also all demonstrate a significant dependence on the exchequer, have low own source revenue and low compliance with the Public Finance Management Act.

In terms of the credit risk profiles of the counties assessed, they fall within the range of medium to high-risk profiles with limited financial flexibility and low fiscal autonomy including a high level of pending bills.

The assessment of the overall status of green finance capabilities demonstrated a presence of climate change laws in all counties assessed, and the presence of additional county laws to support implementation of green activities (such as acts related to water and sanitation, waste management etc). There is also a growing knowledge on climate finance and sustainable practices but this needs to be strengthened. Further, counties have expressed an openness to creative green financing structures and have the opportunity to deepen access to the FLLoCA county climate funds.

[2] The 10 counties were selected based on four criteria: On-going green and climate related initiatives and activities; existing relationships with strategic partners; implementation of the County Climate Change Fund (CCCF) mechanism; expressed interest in participating the green finance market; and regional representation.

The top green finance sectors for the 10 counties assessed include:

- Agriculture and livestock
- Water and sanitation
- Public infrastructure
- Waste management
- Renewable energy
- Healthcare
- Eco-Tourism
- Green buildings and housing
- Forestry
- Natural resource management
- Urban development
- Green trade and industrialisation

The green finance potential also resides in county clusters as captured in the diagram below:

County green asset and investment clusters

There are **4 clusters** that counties fall into regarding the green assets they possess and the type of green finance opportunities that represent low hanging fruit.

Agriculture food baskets

- Dominant and productive agriculture sector with a highly rural population.
- Low hanging fruit for green investment: Climate-resilient agriculture, water resource management, green agro-processing facilities.

ASAL ecosystems with high RE Potential

- Counties vulnerable to perennial drought but with high solar & wind energy potential.
- Low hanging fruit for green investment: Solar and wing energy generation; water infrastructure development, ecosystem rehabilitation.

Cities and urban centres

- Vibrant cities with high population densities.
- Low hanging fruit for green investment: Water and sewerage infrastructure; waste management; green affordable low-cost housing; green urban transport infrastructure

Rapidly urbanising counties

- Rapid urbanisation where the agriculture sector still dominates, but with strong emerging sectors.
- Low hanging fruit for green investment: Climate-resilient agriculture; eco-tourism; green agro-processing; green affordable low-cost housing; water infrastructure development

Following the county green finance assessment, FSD Kenya will provide further technical support to all the10 counties assessed through the county green project preparation facility.

PwC Kenya has been selected as the manager of the facility and will work with county governments to prepare priority green projects to access funding through the green finance market[3]. The facility will: shortlist viable green projects; prepare county green projects; and provide investor awareness and engagement.

"The assessment of the green opportunity in counties illuminates the immense natural asset base that needs to be managed, protected and preserved. It is also clear that core government services such as water, energy, waste management and transport provide valuable avenues for green investment possibilities where there is growing demand. The next step will be to prepare green projects with counties so that green funding can be directed

[3] 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.

towards local development priorities in a manner that creates lasting impact", **noted FSD Kenya CEO Tamara Cook.**

The Capital Markets Authority Chief Executive Officer, Mr. Wyckliffe Shamiah, observed; ''we see the report launch as a culmination of coordinated efforts to place counties on a higher pedestal in exploring alternative sources of funding to bridge their financing gap. We are committed to facilitate interested counties to leverage opportunities availed by capital markets to access financing so that they can scale up investment in green finance infrastructural projects for a more resilient and sustainable future, focusing on natural resource and environment-related sectors such as agriculture, water provision, and transport''.

"Climate finance in Kenya has largely remained inadequate and unpredictable, especially at the subnational level. Being a champion of Locally Led Adaptation (LLA) and its principles, Adaptation Consortium (ADA) works with subnational governments (counties) and other state and non-state actors to build effective and accountable mechanisms that provide accessible, patient, and predictable funding, while supporting counties to mobilise additional climate finance from innovative, non-traditional sources to enhance communities' capacities to implement locally led adaptation initiatives**", said Kennedy Ododa, Consortium Coordinator, The Adaptation Consortium (ADA).**

Notes to editors:

About FSD Kenya

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). We work 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. More: www.fsdkenya.org

About Agusto & Co.

Agusto & Co. is a leading Pan African credit rating agency and a business information provider, with offices in Nigeria (Lagos), Kenya (Nairobi), Rwanda (Kigali) and Ghana (Accra). Agusto & Co. is licensed as a credit rating agency by the Kenyan and Rwandan Capital Markets Authorities and the Securities Exchange Commission in Nigeria and Ghana. Agusto & Co. is also Certified as an Approved Verifier by the Climate Bonds Standard with the capacity to perform verification of green bonds, projects and assets in Africa. . Additionally, Agusto & Co. is listed on the International Capital Market Association's (ICMA) website as one of the companies that have voluntarily aligned with the Guidelines for External Reviewers for the adoption of Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and Sustainability-Linked Bond Principles.

About the Capital Markets Authority (CMA)

The Capital Markets Authority (CMA) was set up in 1989 as a statutory agency under the Capital Markets Act Cap 485A. It is charged with the prime responsibility of both regulating and developing an orderly, fair, and efficient capital markets in Kenya with the view to promoting market integrity and investor confidence. CMA also regulates the commodity markets and online forex trading. The regulatory functions of the Authority as provided by the Act and the regulations include; Licensing and supervising all the capital market intermediaries; Ensuring compliance with the legal and regulatory framework by all market participants; Regulating public offers of securities, such as equities and bonds & the issuance of other capital market products such as collective investment schemes; Promoting market development through research on new products and services; Reviewing the legal framework to respond to market dynamics; Promoting investor education and public awareness; and Protecting investors' interest.

About The Adaptation Consortium (ADA)

The Adaptation Consortium (ADA) has been in existence since 2011. The consortium brings together both state and non-state stakeholders working on climate change in the country, specifically, devolved climate finance and climate action for local communities. ADA conceptualized and designed the County Climate Change Fund (CCCF) mechanism through which subnational governments (counties) can create, access, and use climate finance from different sources to build communities' resilience and reduce vulnerabilities to a changing climate. In addition, ADA is also a member of the DCF Alliance, a conglomeration of institutions implementing DCF Mechanisms in Africa. The alliance aims to promote and uphold the key premises of DCF to ensure high-quality implementation, build the capacity of partner institutions, and share emerging knowledge and learning between partner countries to strengthen the evidence base for DCF.

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