COUNTY GREEN FINANCE ASSESSMENT REPORT

Key Findings

Launch of the County Green Finance Assessment Report
Nairobi, Kenya, 25 April 2024
OUTLINE

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• About Agusto & Co.
This report is the result of the partnership, expertise, and work of numerous 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 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 to the counties.

Green finance present an opportunity for counties to generate resources for the much-needed development of county infrastructure.
Project Objectives

- **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 - including a shadow credit rating.

- **Green Asset and Activity Assessment:** Availability of green investment opportunities in the selected counties.

- **Green Finance Capability Assessment:** County government skills and ability to manage green financial instruments and related projects.
Project Scope

Embu County
Kirinyaga County
Kisumu County
Laikipia County
Makueni County
Nairobi City County
Nandi County
Taita-Taveta County
Vihiga County
Wajir County

Counties of Kenya
County Green Finance Assessment Findings
Economic and Fiscal Assessment

- Relatively Low Contribution to Kenya’s GDP
- Significant Dependence on Exchequer
- Low Compliance with Public Finance Management Act
- Less Diversified Economic Base
- Growing Alternative Financing Options
- Youthful Population
- Stable Political Environment
- High Mobile Banking Penetration Level
- 01
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Credit Risk Assessments

Creditworthiness

- Medium to High Risk Profile
- Low Own Source Revenue
- Low Fiscal Autonomy
- High Level of Pending Bills
- High Personnel Expenses above Regulatory Threshold
- Limited Financial Flexibility
- Favourable climatic condition suitable for agricultural activities
- Stable Political Environment

<table>
<thead>
<tr>
<th>Counties</th>
<th>Shadow Credit Rating</th>
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<tbody>
<tr>
<td>Embu</td>
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<tr>
<td>Kirinyaga</td>
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<td>Kisumu</td>
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<td>Laikipia</td>
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<td>Vihiga</td>
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<td>Wajir</td>
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Key Green Sectors in Counties

- Agriculture & Livestock
- Water & Sanitation
- Public Infrastructure
- Waste Management
- Renewable Energy
- Healthcare
- Eco-Tourism
- Green Building & Housing
- Forestry
- Natural Resources
- Urban Development
- Green Trade & Industrialization
## Examples of County Green Projects

<table>
<thead>
<tr>
<th>County</th>
<th>Project Description</th>
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<tbody>
<tr>
<td><strong>Embu County</strong></td>
<td>Affordable Low-cost Green Housing Scheme in Embu (Majengo, Majimbo, Blue Valley &amp; Spring Valley), Runyenjes, Siakago and Kiritiri</td>
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<td><strong>Kirinyaga County</strong></td>
<td>Development of a climate-smart agro-industrial park at Sagana for Agro-processing of key agricultural products</td>
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<td><strong>Kisumu County</strong></td>
<td>Upscaling of Public Infrastructure (upgrade of Kadinda – Soko road in Nyakach, existing markets &amp; 200km rural access roads and connecting bridges)</td>
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<td><strong>Laikipia County</strong></td>
<td>Development of Wind Mill (Laikipia North &amp; West) and Solar Farms (Rumuruti) to generate electricity</td>
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<td><strong>Makueni County</strong></td>
<td>Development of 20 mega watts solar farm along Wote-Makindu road.</td>
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<tr>
<td><strong>Nairobi City County</strong></td>
<td>Affordable Green Housing Schemes in Bahati, Jericho, Lumumba, Embakasi North, Ziwani, Maringo, Woodley, and Kariobangi North Estates</td>
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<td><strong>Nandi County</strong></td>
<td>Construction of an Eco-Tea Factory at Nandi Hills and Aldai, completion of the Coffee Processing Plant at Tinderet</td>
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<td><strong>Vihiga County</strong></td>
<td>Upgrade of water schemes (Maseno, Lunyerere &amp; Kaimosi)</td>
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<tr>
<td><strong>Taita-Taveta County</strong></td>
<td>Refurbish and expand water harvesting and distribution networks (Mzima Springs, Njoro Kubwa Springs, Lake Chala and Kitopo Spring)</td>
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<tr>
<td><strong>Wajir County</strong></td>
<td>Development of renewable energy solutions - Solar and Wind Farms at Diff, Tarbaj, Hadado, Bute and Eldas</td>
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Green Finance Capability Assessment

- Presence of Climate Change Legislations and Act
- Growing Knowledge on Climate Finance and Sustainable Practices
- Openness to Creative Green Financing Structures
- Presence of Ancillary County Legislations Supporting Green Activities
- Opportunity to Access FLLoCA County Climate Funds
Key Challenges

- **Ambition vs Viability:** Some counties have grand green finance ambitions but limited viable projects.

- **Ownership of projects:** High-potential green projects in some counties are owned by national government and/or shared across neighbouring counties.

- **Young Green Finance Market:** Limited precedence of green financial instrument use such as government green bonds (national or sub-national), translates to a shallow pool of local expertise.

- **Fiscal Position:** National Government’s fiscal position limits scale of funding available to guarantee debt-financed county green projects.
Key Opportunities

The TIME is RIGHT
Immense interest and enthusiasm for green finance by different stakeholders - National & County Government, Regulators, Private Sector, DFIs, etc.

Momentum for Strategic Partnerships
Different stakeholders are willing to join forces to scale green bonds and other forms of green finance.

Ambition to Pioneer Green Finance in Africa
Huge interest to lead Africa in green finance by all stakeholders.

Openness to Creative Financial Structures
To enable the green finance and green bond markets to scale responsibly and consistently in line with best practices.

Multi Asset & Multi County Financing Opportunities
To fund similar green projects that cut across counties and multiple sectors.

Aggregation
Aggregation toward Kenya Sovereign Green Transaction Initiative
County Green Financing Opportunities

1. **Result-Based Finance**
2. **Public-Private Partnership Financing**
3. **Concessionary Funds**
4. **Blended Finance Options**
5. **Green Bond/Sukuk**
Counties are well-positioned to implement projects by leveraging green finance opportunities with a particular focus on some Islamic financial instruments such as:

- **Sukuk (Sharia-compliant Bonds)**
- **Musharakah (Joint Venture)**
- **Ijarah (Leasing)**
- **Murabaha (Cost-plus)**
About Agusto & Co.
Agusto & Co. has voluntarily aligned with the International Capital Market Association’s (ICMA) Guidelines for External Reviewers covering Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and Sustainability-Linked Bond Principles.
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