



Embu County

Green finance assessment summary report

April 2024



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Acknowledgment

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

Project background

- 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 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.
- Green finance instruments such as county green 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.

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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.

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.

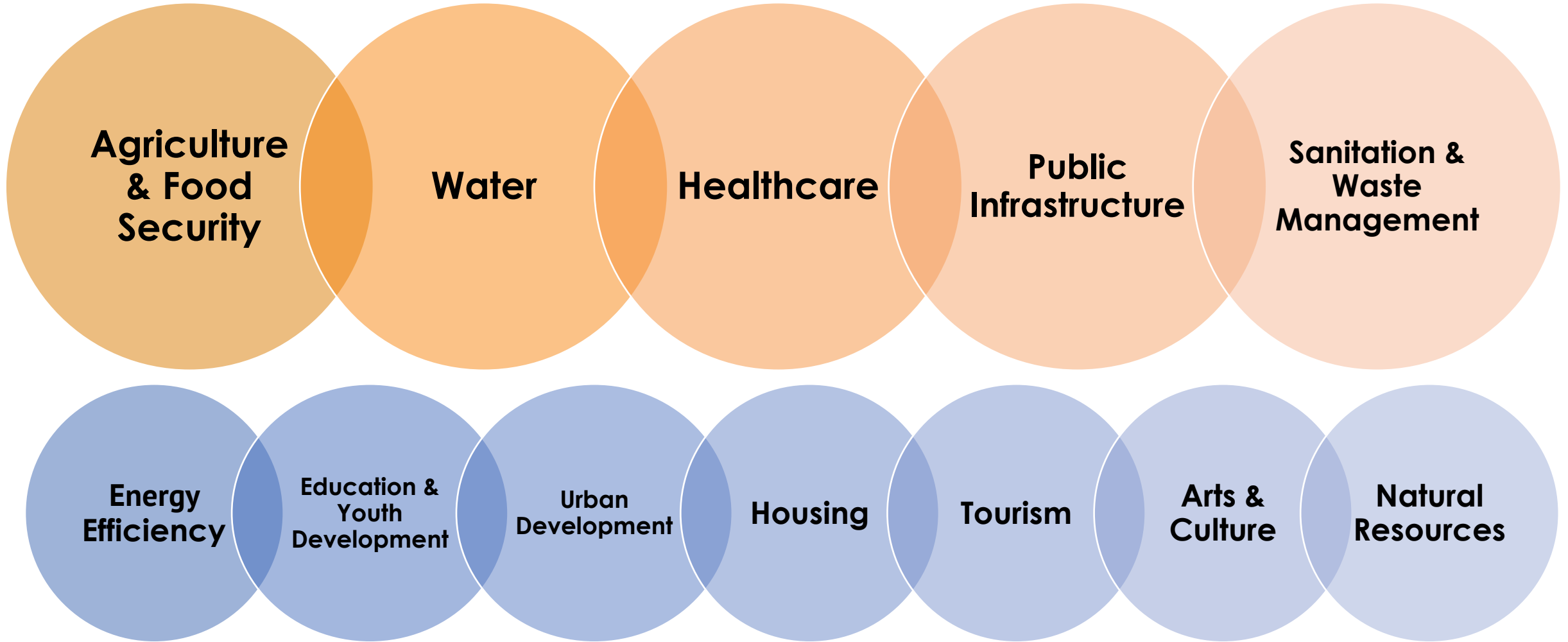
Economic & fiscal assessment of Embu County

Findings	Opinion
<ul style="list-style-type: none"> Embu County contributed 1.5% to Kenya's gross domestic product (GDP) according to the Gross County Product (GCP) 2023 report. Agriculture is the mainstay of Embu contributing 27.1% to the County's GCP and employing approximately 70.1% of the population. A high wage bill, accounting for 50.3% of realised revenue in FY 2022/23, above the set limit of 35%. A high level of pending bills at Kshs 1.37 billion as at the end of the fiscal year 2022/23. Use of manual payroll processing accounting for 3.6% of total payroll costs. Late submission of financial reports to the Office of the Controller of Budget. 	<ul style="list-style-type: none"> Embu County's overall revenue profile requires improvement mainly in fully automating its own source revenue collection. The expenditure profile of the County requires improvement, particularly in reducing payroll expenses, which have consistently exceeded the 35% statutory threshold. Need to prudently manage existing pending bills as the County's financial flexibility to meet future debt obligations will hinge on the reconciliation and settlement of existing pending bills. The County treasury should ensure that financial reports are prepared and submitted on time to the Office of the Controller of Budget. Embu County will need to embrace the Debt Capital Markets for Infrastructure Development financing.

Credit risk assessment of Embu County

Findings	Opinion
<ul style="list-style-type: none"> Embu County was assigned a “Bb- Ken” Shadow Credit Rating which indicates 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. 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. Large pending bills year-on-year. 	<ul style="list-style-type: none"> The County’s creditworthiness is supported by a stable political environment, improving governance framework and modest financial flexibility owing to minimal leverage. The constraining factors are the County’s low own source revenue accounting for 10% of total revenue in FYE 2022/23 which requires improvement, high personnel expenses at 50.3% of revenue, above the 35% limit set by Regulation 25 (1b) of the Public Finance Management (PFM) Act of 2012, over-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. The opportunities for the County include a youthful population accounting for majority of the active labour workforce, favourable climatic condition suitable for agricultural activities and deepening of own source revenue using fully automated collection systems.

Green priority areas - Embu County



Suggested green projects - Embu County

Water Harvesting, Management & Distribution (construction of Thambana dam & expansion of water infrastructure for irrigation)

Solarise all health centres and facelift Embu level 4 & 5 Teaching & Referral Hospital

Integrated Waste Management System & Recycling Centre in Kamwimbi

Development of Hydro Dams (Nthenge Njeru waterfall) and Mini-grid solar farms to generate electricity

Affordable Low-cost Housing Scheme in Embu (Majengo, Majimbo, Blue Valley & Spring Valley), Runyenjes, Siakago and Kiritiri

Establishment of Agro-processing facilities for coffee, macadamia nuts, tea, miraa, banana, milk, mangoes, avocados & honey

Public Infrastructure (development of modern bus terminal, upgrade of markets in Embu Town, Runyenjes, Makutano & rural access roads)

Provision of green infrastructure and incentives to attract investments in agro-processing and value addition to local produce

Development & provision of infrastructure for Eco-Lodges in Mt Kenya and Mwea Game Reserve

Energy Efficiency across government offices, hospitals, schools, streetlights & markets to promote a 24-hour economy

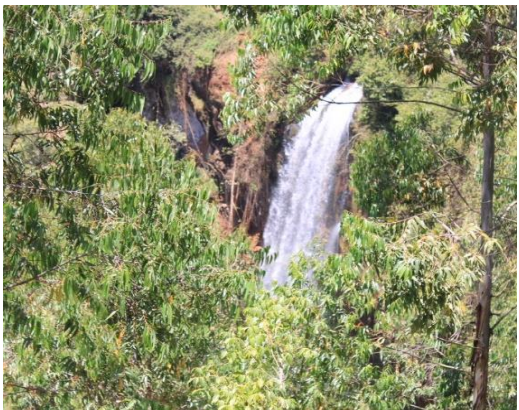
Green finance capability assessment - Embu County

Findings	Opinion
<ul style="list-style-type: none"> • Embu County has a County Climate Change Fund (CCCCF) Act, 2020 in place which guides the County on green/climate finance. • There is limited knowledge on climate finance. • Other County legislations that support management of green assets and projects, include: <ul style="list-style-type: none"> ○ Embu County Environment Management Act 2015 ○ Embu County Water Act, 2015 ○ Embu County Tourism Act, 2018 	<ul style="list-style-type: none"> • There is need to create awareness in the communities on climate change plans and impacts by leveraging various stakeholders. • Enforcing compliance with established County laws and policies relating to climate change. • Capacity building of County Staff in all departments on climate change and green finance. • Capacity building and awareness for key stakeholders in the County. • General County-wide awareness and sensitization on the impact of climate change and how the citizens can support government efforts in restoring the natural ecosystem.

Recommendations - Embu County

Financing Options	Opinion
<ul style="list-style-type: none"> • County Green Bond • County-Agency Green Bond • Special Purpose Vehicle Green Bond • Public-Private Partnership option • Sector/Multi-sector Bond • Multi County/Regional Block Bond • Government Grants • Development Finance Grants • Structured Guarantee Funds • Concessionary Funds • Results-based Finance • Blended Finance Options 	<ul style="list-style-type: none"> • Embu County is properly positioned to implement the suggested green projects by leveraging the green finance opportunities available. • Embu County should build capacity and create awareness around the green economy particularly for key county stakeholders such as all County staff in various departments, Members of County Assembly (MCAs), civil society organisations (CSOs), Community Based Organisations (CBOs) and private sector actors. • Embu County should develop concept notes (or investment proposals) for various projects and undertake feasibility and viability studies on proposed green projects as well as cost-benefit analysis, including preparing a Framework for issuance. • Embu County can utilise various financing options that are fit-for-purpose to raise funds to execute priority infrastructure projects. • Embu County can leverage FLLoCA funds to execute identified green projects.

Sights of Embu County



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