



Kisumu County

Green finance assessment summary report

April 2024



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Acknowledgment

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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.

Partners



**The National Treasury
& Economic Planning**
The National Treasury



Agusto&Co.
Research, Credit Ratings, Credit Risk Management



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 - Kisumu County

Findings	Opinion
<ul style="list-style-type: none"> • Kisumu County contributed 2.5% to Kenya's gross domestic product (GDP) according to the Gross County Product (GCP) 2023 report. • Agriculture is the predominant economic activity contributing 16% of Kisumu's GCP. • The County's capital is strategically located as a major commercial and transport hub for the Western part of Kenya and the East African region and serves as a gateway into the rest of the African Great Lakes region. • A large wage bill accounting for 49.9% of the realized revenue in FY 2022/23, higher than the 35% limit. • High pending bills which amounted to Kshs 2.04 billion as at 30 June 2023. • Late submission of financial reports to the Office of the Controller of Budget. 	<ul style="list-style-type: none"> • The County's revenue profile is satisfactory. However, improvement is required in deepening own source revenue (OSR) by fully automating the revenue collection process to address challenges associated with leakages and collection. • Overall expenditure profile requires improvement, particularly in moderating payroll expenses, which have consistently exceeded the 35% statutory threshold. • Need to prudently manage existing rising pending bills as the County's financial flexibility to meet future debt obligations will hinge on the reconciliation and settlement of pending bills. • Kisumu County will need to embrace the Debt Capital Markets for Infrastructure Development financing.

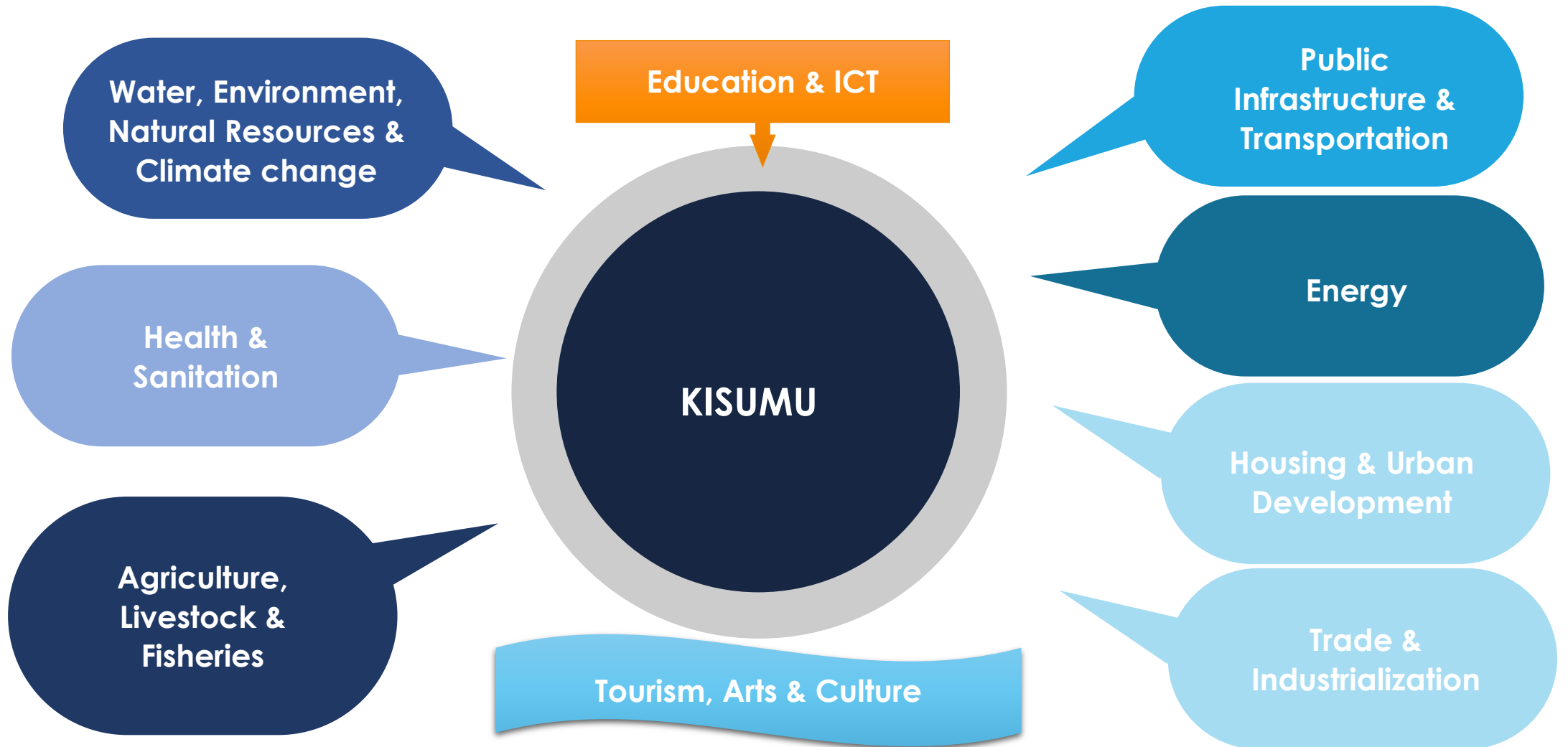
Credit risk assessment - Kisumu County

Findings	Opinion
<ul style="list-style-type: none"> • Kisumu County was assigned a “Bb Ken” Shadow Credit Rating which indicates a county with 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 above regulatory threshold. • Huge pending bills year-on year. 	<ul style="list-style-type: none"> • The County's creditworthiness is supported by a stable political environment, strategic importance to the country as the gateway into the African Great Lakes region, improving governance framework and modest financial flexibility owing to minimal leverage. • The constraining factors are the County's low own source revenue accounting for 11% of total revenue in FYE 2022/23 which requires improvement, high personnel expenses above the 35% limit by PFM Act of 2012, rising overhead costs elicited by higher inflationary pressures, 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 youthful population, favourable climatic condition suitable for large scale rice farming and sugarcane plantations, presence of an international airport (Kisumu International Airport) and seaport (Port of Kisumu) to support commercial activities, deepening of own source revenue using fully automated collection system and abundant water resources which can be used to catalyse the marine, aquaculture and tourism industries.

Green asset and activity assessment - Kisumu County

Findings	Opinion
<ul style="list-style-type: none"> Water, Environment, Natural Resources & Climate Change Trade & Industrialization Agriculture, Livestock & Fisheries Energy Efficiency. Health & Sanitation Public Infrastructure & Transportation Housing & Urban Development 	<ul style="list-style-type: none"> Refurbish and expand water harvesting sources and distribution network across the County through Kisumu Water and Sanitation Company (KIWASCO). Solarize water pumping facilities to reduce rising electricity bills associated with harvesting and distribution of water from the current sources. Development of special green economic zones in Miwani which will become the cornerstone of rural export-based trade. Develop a waste-to-energy facility at the Kasese Dumping Site to boost own source revenue. Use of renewable energy (such as solar plants) across government offices, hospitals, state owned enterprises, streets and markets to enhance energy efficiency. Provision of green infrastructure and incentives for manufacturing to attract private sector investments in value addition. Implement green infrastructure like permeable pavements and green public spaces and employ eco-friendly materials during the development of new roads and rehabilitation of existing ones. Enhance afforestation strategies to boost tree cover and promote biodiversity.

Green priority areas - Kisumu County



Suggested Green Projects- Kisumu County

Water Harvesting, Management, Distribution & recycling (expansion of water sources & infrastructure for households and irrigation)

Solarize all 161 Healthcare facilities and rehabilitation of infrastructure (such as incinerators) at healthcare centres

Integrated Waste Management Ecosystem (Policy, Waste Handling/Transfer Stations & Waste-to-Wealth Facility in Kasese)

Upscaling of Public Infrastructure (upgrade of Kadinda – Soko road in Nyakach, existing markets & 200km rural access roads and connecting bridges)

Development of Infrastructure at the Special Economic Zone in Miwani

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

Development of fish cooling facility for fish aggregation and storage

Completion and upgrade of a Rice Milling Plant in Ahero, Nyando Sub-County

Afforestation and reafforestation of urban and public spaces (parks)

Green Finance Capability Assessment - Kisumu County

Findings	Opinion
<ul style="list-style-type: none"> • Kisumu has County Climate Change Act 2023 to guide the County on green/climate finance. • The Kisumu County Integrated Climate Change Action Plan (KCICCAP) 2022-2027, developed in partnership with the European Union (EU) sets out strategies and actions that the County will undertake to address climate change adaptation, mitigation and access to energy. • Other County legislations that support management of green assets and projects include: <ul style="list-style-type: none"> ○ Kisumu County Water Act, 2023 ○ Kisumu County Environmental Management Act, 2019 ○ Kisumu County Agricultural Sector Co-ordination Bill, 2023 ○ Kisumu County Investment and Development Bill, 2021 ○ Kisumu County Regularization of Land Ownership and Development Act, 2021 ○ Kisumu County Fisheries and Aquaculture Act, 2019 ○ Kisumu County Transport Bill, 2019 	<ul style="list-style-type: none"> • There is a need for creating awareness in the communities on climate change policies and impacts. • Enforcing compliance with established County laws and policies relating to climate change will be important. • The County should implement the 2022 – 2027 climate change action plan. • Capacity building in the areas of climate finance for County staff is required. • Capacity building and awareness for key stakeholders such as Members of County Assembly (MCAs), civil society organizations (CSOs), community based organizations (CBOs) and private actors.

Recommendations- Kisumu 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"> • Kisumu County is properly positioned to implement the suggested green projects by leveraging the green finance opportunities available. • Kisumu County should build capacity and create awareness around the green and blue economy particularly for all county stakeholders. • Kisumu 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. • Kisumu County can utilize various financing options that are fit-for-purpose to raise funds to execute priority infrastructure projects. • Kisumu County can leverage FLoCA funds to execute identified green projects.

Sights of Kisumu County





Creating value through **inclusive finance**

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