



# Makueni County

## Green finance assessment summary report

April 2024



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# Acknowledgment

- This report is the result of the partnership, expertise, and work of numerous specialists from The National Treasury and Economic Planning, The Council of Governors, The Capital Markets Authority, FSD Kenya, Augusto & Co., ADA Consortium, the Nairobi Securities Exchange, and the County Governments of Embu, Kirinyaga, Kisumu, Laikipia, Nairobi City, Makueni, Nandi, Taita-Taveta, Vihiga, and Wajir.
- FSD Kenya wishes to express particular thanks to the National Treasury and Economic Planning, the Council of Governors, and the County Governments of Embu, Kirinyaga, Kisumu, Laikipia, Nairobi City, Makueni, Nandi, Taita-Taveta, Vihiga, and Wajir. This report would not have been possible with their vision, commitment, and collaboration.

# 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- Makueni County

Findings	Opinion
<ul style="list-style-type: none"> <li>• Makueni County contributed 1.1% to Kenya's gross domestic product (GDP) according to the Gross County Product (GCP) 2023 report.</li> <li>• Agriculture is the predominant economic activity, contributing 27.7% to the Gross County Product.</li> <li>• A large wage bill, accounting for 42.1% of realised revenue in FY 2022/23, above the set limit of 35%.</li> <li>• Modest pending bills totalling Kshs 421.1 million as at 30 June 2023.</li> <li>• Use of manual payroll processing represented 9.2% of total payroll costs.</li> <li>• Late submission of financial reports to the Office of the Controller of Budget.</li> </ul>	<ul style="list-style-type: none"> <li>• The County's overall revenue profile requires improvement mainly in capturing levies, fees and licenses from the informal sector in a bid to increase own source revenue to a sustainable base.</li> <li>• The expenditure profile of the County requires improvement, particularly in moderating payroll expenses, which have consistently exceeded the 35% statutory threshold.</li> <li>• 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 third-party bills.</li> <li>• The County treasury should ensure that financial reports are prepared and submitted on time to the Office of the Controller of Budget.</li> <li>• Makueni County will need to embrace the Debt Capital Markets for Infrastructure Development financing.</li> </ul>

# Credit risk assessment- Makueni County

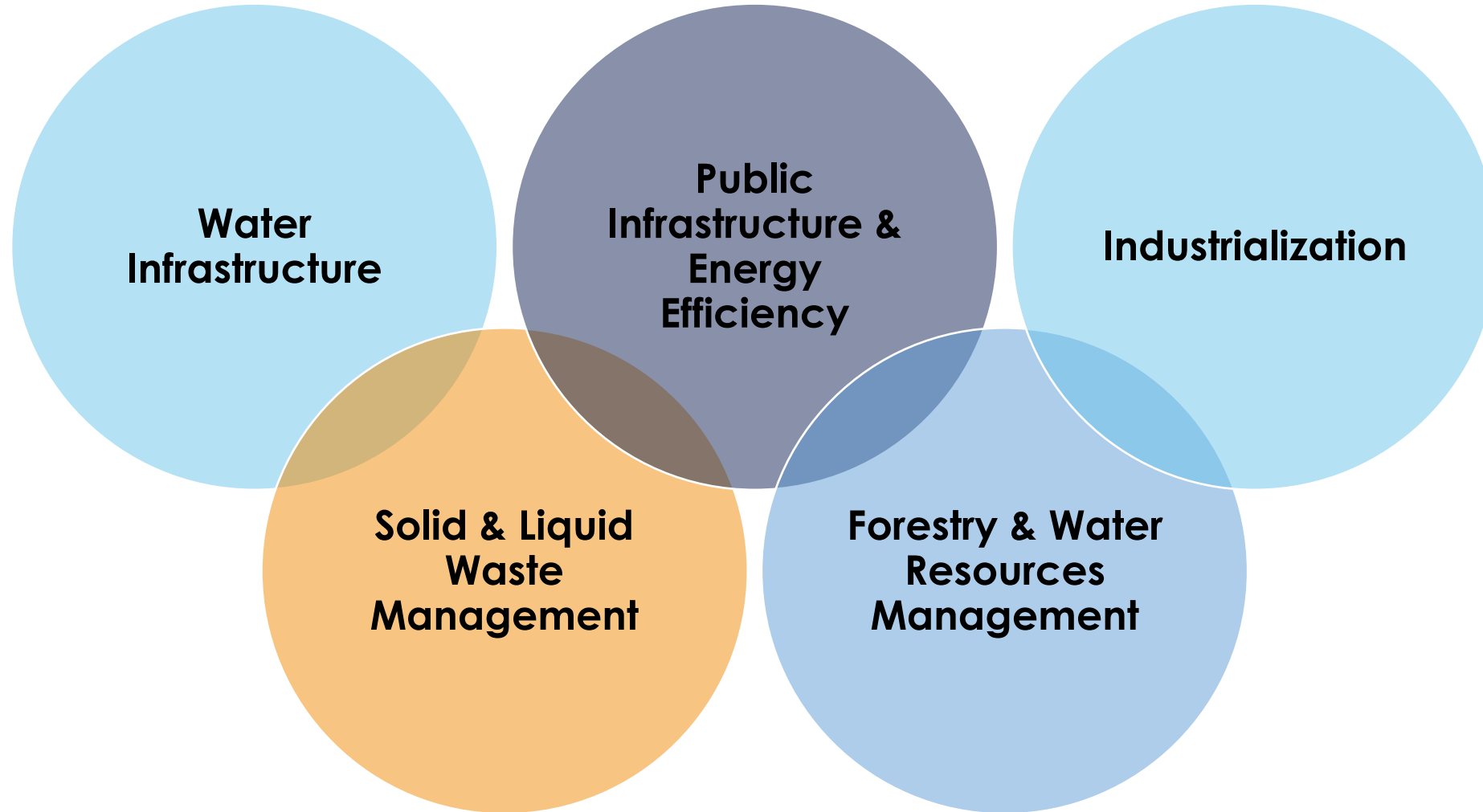
Findings	Opinion
<ul style="list-style-type: none"> <li>Makueni County was assigned a “<b>Bb Ken</b>” Shadow Credit Rating which indicates a county with a satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country.</li> <li>Significant dependence on centrally distributed revenue by the Exchequer which are not timely.</li> <li>Qualified audit opinions over the last five years.</li> <li>High personnel expenses, above the regulatory threshold.</li> <li>Low own source revenue which requires improvement.</li> </ul>	<ul style="list-style-type: none"> <li>The County’s creditworthiness is supported by the stable political environment, increasing capital spending on infrastructure development projects and modest financial flexibility owing to low leverage.</li> <li>The constraining factors are the County’s low own source revenue accounting for 9% of total revenue in FYE 2022/23 which requires improvement, high personnel expenses at 42.1% of revenue, above the 35% limit set by Regulation 25 (1b) of the Public Finance Management (PFM) Act on account of the growing workforce, continued dependence 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.</li> <li>The opportunities for the County include a youthful population accounting for majority of the active labour workforce, favourable climatic condition suitable for fruit cultivation and deepening of own source revenue leveraging technology to fully automate all revenue streams and strengthening revenue mobilization initiatives across the County.</li> </ul>

# Green asset and activity assessment- Makueni County

Findings	Opinion
<ul style="list-style-type: none"> <li>Water Infrastructure</li> <li>Public Infrastructure</li> <li>Energy Efficiency</li> <li>Industrialization</li> <li>Solid &amp; Liquid Waste Management</li> <li>Forestry &amp; Water Resources Management</li> </ul>	<ul style="list-style-type: none"> <li>Enhance existing water infrastructure through solarizing the water plant and creating an additional sump along Kaiti River to increase the capacity of water collected for distribution to residents as well as reduce the cost of pumping water.</li> <li>Completion of Phase II of the Kaiti River project and the Kiaanzou Water Distribution Project to increase water supply to County residents through Wote Water and Sanitation Company (WOWASCO).</li> <li>Develop green industrial parks, which will be located along the towns on the Standard Gauge Railway (SGR) Corridor in Mtito Andei, Emali and Kibwezi town, will form the backbone of a thriving export-oriented trade and urban-based commerce.</li> <li>Provision of green infrastructure and incentives to attract investments in manufacturing and value addition to products.</li> <li>Develop a 20-megawatts solar farm along Wote-Makindu road to support efforts of increasing the utilization of renewable energy in the County.</li> <li>Use of solar energy across government offices, hospitals, state-owned enterprises, and street and market lighting will promote energy efficiency.</li> <li>Renovation and expansion of the Makueni Fruit Processing plant to include a solar-powered energy facility, fruit dryer, and greenhouse storage facility, will ensure that a significant amount of local fruit produce is purchased and processed into finished goods.</li> </ul>



# Green priority areas- Makueni County



# Suggested green projects - Makueni County

## Makueni Industrial Park

Provision of green infrastructure and incentives to attract investments in manufacturing and value addition to products.

## Kaiti River (Phase 1 & 2)

Solarize and create an additional underground water tank for Kaiti River Phase 1  
Finance completion of Kaiti River Phase 2

## Energy Efficiency

Development of 20 mega watts solar farm along Wote-Makindu road.  
Promote energy efficiency across government offices, hospitals, state-owned enterprises, street & market lighting

## Makueni County Fruit Development & Marketing Authority

Revamp and expand fruit processing plant (including solar-powered energy facility, fruit dryer and greenhouse storage facility) to ensure that significant amount of local fruit produce are purchased and processed into finished goods (ready to drink).

## Kiaanzou Water Distribution

Finance Kiaanzou Water Harvesting and Distribution. This project once completed will provide water to Wote and the surrounding areas such as Kilala and Mukuyuni. The project will have multiplier effects across several sectors such as farming, fishery, household, businesses and cottage companies.

# Green finance capability assessment- Makueni County

Findings	Opinion
<ul style="list-style-type: none"> <li>• Makueni was one of the first sub-national to have a County Climate Change Fund (CCCF) legislation in Africa through the support of a development finance institution in September 2015. The regulations which were formulated under the Public Finance Management Act of 2012, and committed 1% of the County's annual development budget to climate change.</li> <li>• Other County legislations that support management of green assets and projects, include:             <ul style="list-style-type: none"> <li>○ Makueni County Climate Change Act 2022</li> <li>○ Makueni County Water Policy 2018</li> <li>○ Makueni County Water Act 2020</li> <li>○ Makueni County Sand Conservation and Utilization Act 2015</li> <li>○ Makueni County Fruit Development and Marketing Authority Bill 2017</li> <li>○ Makueni County Climate Change Action Plan 2023-2027</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• There is a need for creating awareness in the communities on climate change policies and impacts.</li> <li>• Enforcing compliance with established County laws and policies such as climate change policies.</li> <li>• Capacity building of County Staff in all departments on climate change and green finance</li> <li>• Capacity building and awareness for key stakeholders in the County.</li> </ul>

# Recommendations- Makueni County

Financing Options	Opinion
<ul style="list-style-type: none"> <li>• County green bond</li> <li>• County-agency green bond</li> <li>• Special purpose vehicle green bond</li> <li>• Public-private partnership option</li> <li>• Sector/multi-sector bond</li> <li>• Multi county/regional block bond</li> <li>• Government grants</li> <li>• Development finance grants</li> <li>• Structured guarantee funds</li> <li>• Concessionary funds</li> <li>• Results-based finance</li> <li>• Blended finance options</li> </ul>	<ul style="list-style-type: none"> <li>• Makueni County is properly positioned to implement the suggested green projects by leveraging the green finance opportunities available.</li> <li>• Makueni 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 actors.</li> <li>• Makueni 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.</li> <li>• Makueni County can utilise various financing options that are fit-for-purpose to raise funds to execute priority infrastructure projects.</li> <li>• Makueni County can leverage FLoLoCA funds to execute identified green projects.</li> </ul>



# Sights of Makueni County



Creating value through **inclusive finance**







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