



Vihiga County

Green finance assessment summary report

April 2024



Table of contents

- Project background
- Project objectives
- Economic and fiscal assessment
- Credit risk assessment
- Green asset and activity assessment
 - Green priority areas
 - Suggested green projects
- Green finance capability assessment
- Recommendations
- Sights of Vihiga County



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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



Project objectives

- **Economic and fiscal assessment:** County fiscal performance (historical and projected), challenges, and ability to take on (additional) strengths 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- Vihiga County

Findings	Opinion
<ul style="list-style-type: none"> Vihiga County contributed 0.8% to Kenya's gross domestic product (GDP) according to the Gross County Product (GCP) 2023 report. Agriculture is the backbone of the County's economy, accounting for more than 38% of the gross county product (GCP) and 80% of both direct and indirect employment. A high wage bill, accounting for 37.8% of realized revenue in FY 2022/23, above the limit of 35%. High pending bills of Kshs 1.35 billion as at 30 June 2023. Use of manual payroll processing representing 9.3% of total payroll costs. 	<ul style="list-style-type: none"> The County's overall revenue profile requires improvement mainly in fully automating revenue collection by establishing a one-stop collection portal for own source revenue. This will also help to address challenges associated with revenue leakages. The expenditure profile of the County 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. Vihiga County will need to embrace the Debt Capital Markets for Infrastructure Development financing.

Credit risk assessment - Vihiga County

Findings	Opinion
<ul style="list-style-type: none"> Vihiga 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 the regulatory threshold. Huge accumulated pending bills year-on-year. 	<ul style="list-style-type: none"> The County's creditworthiness is supported by the County's stable political environment, improving governance framework driven by the deployment of a real-time Geographic Information System (GIS) and modest financial flexibility owing to minimal leverage. The constraining factors are the County's low own source revenue accounting for 4% of total revenue in FYE 2022/23 which requires improvement, high personnel expenses at 37.8% of revenue higher than 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 almost 50% of the active labour workforce, scaling governance and administration on the back of a fully functional Geographic Information System and deepening of own source revenue through using fully automated collection systems.

Green asset and activity assessment - Vihiga County

Findings	Opinion
<ul style="list-style-type: none"> • Industrialisation • Waste Management • Energy Efficiency • Healthcare • Water Resources Management • Agriculture and Food Security • Affordable Housing • ICT & Innovation • Public Infrastructure • Sanitation • Tourism & Natural Resources Management 	<ul style="list-style-type: none"> • Expansion and rehabilitation of the existing piped water supply schemes (Maseno, Lunyerere and Kaimosi) under the Vihiga Cluster Water Supply Project. • Establishment of an integrated solid waste management and recycling centre on the 7-acre procured land in Luanda South and development of modern sewerage disposal system in the County. • Establishment of an industrial and export processing zone in Kaimosi and Luanda. • Promoting the development of cottage industries and establishing a granite factory in West Bunyore, while utilizing renewable energy sources and adoption of circular economy model. • Completion and operationalization of the Kaimosi Hydropower plant in collaboration with Kenya Electricity Generating Company PLC (Kengen). • Installation of solar power systems for all healthcare facilities. • Establishment of a central milk processing plant which would process the milk collected at the three milk cooling plants in Vihiga County. • Develop smart urban infrastructure and affordable green housing in partnership with private sector. • Development of Eco-Lodges at Kaimosi and Maragoli Hills.

Green priority areas-Vihiga County

Industrialization

Waste Management

Energy Efficiency

Healthcare

Water Resources Management

Agriculture and Food Security

Affordable Housing

ICT & Innovation

Public Infrastructure

Sanitation

Tourism

Natural Resources Management

Suggested green projects

Upgrade of water schemes (Maseno, Lunyerere & Kaimosi)
AWASCO

Kaimosi Hydropower Plant

Integrated Solid Waste Management & Recycling Plant, Luanda South

Industrial and export processing zone, Kaimosi

Solar Mini-grids across sub-counties not connected to grid

Eco-Tourism (Kibiri & Maragoli Forest)

Natural Resource Conservation (Munzatsi Hills)

Affordable Housing, Central Maragoli

Dairy Animal Multiplication Centre, Jepkoyai

Collection, drying & packaging centres for African Leafy Vegetables

Chicken Processing Centres (Luanda & Majengo)

Energy Efficiency across government offices, hospitals, schools, street lights & markets

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

Green finance capability assessment- Vihiga County

Findings	Opinion
<ul style="list-style-type: none"> Vihiga County was among the first counties to draft and enact the County Climate Change Fund (CCCCF) Act, 2019 in Kenya which guides the County on green/climate finance. Vihiga County also has a County Environment Action Plan (CEAP 2021 - 2025) which provides a framework for an integrated approach to planning and sustainable development for Vihiga County by ensuring the conservation of the environment. 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"> Vihiga County Water and Sewerage Services Bill, 2015 Vihiga County Solid Waste Management Policy, 2019 	<ul style="list-style-type: none"> There is a need for creating awareness in the communities on climate change policies and impacts by leveraging various stakeholders. Enforcing compliance with established County laws and policies such as the climate change policies. Capacity building of County Staff in all departments on climate change and green finance. 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 - Vihiga 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"> • Vihiga County is properly positioned to implement the suggested green projects by leveraging the green finance opportunities available. • Vihiga County should build capacity and create awareness around the green economy particularly for key county stakeholders. • Vihiga 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. • Vihiga County can utilize various financing options that are fit-for-purpose to raise funds to execute priority infrastructure projects. • Vihiga County can leverage FLLoCA funds to execute identified green projects.

Sights of Vihiga County





Creating value through **inclusive finance**

Green Suites Palm Suite,
Riverside, Riverside Drive,
P.O. Box 11353, 00100,
Nairobi, Kenya.

www.fsdkenya.org

 FSD Kenya

 @FSDKe