



Wajir 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



COUNCIL OF GOVERNORS



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 - Wajir County

Findings	Opinion
<ul style="list-style-type: none"> Wajir County contributed 0.5% to Kenya's gross domestic product (GDP) according to the Gross County Product (GCP) 2023 report. Agriculture is the predominant economic activity contributing 37.6% of the County's GCP, while Livestock production is the predominant agricultural activity and is practised countywide. A high wage bill accounting for 40.5% of realized revenue in FY 2022/23, higher than the 35% limit. High level of pending bills of Kshs 5.51 billion as at 30 June 2023. Use of manual payroll processing represented 18% of total payroll costs. 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 very weak and requires improvement 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. Wajir County will need to embrace the Debt Capital Markets for Infrastructure Development financing.

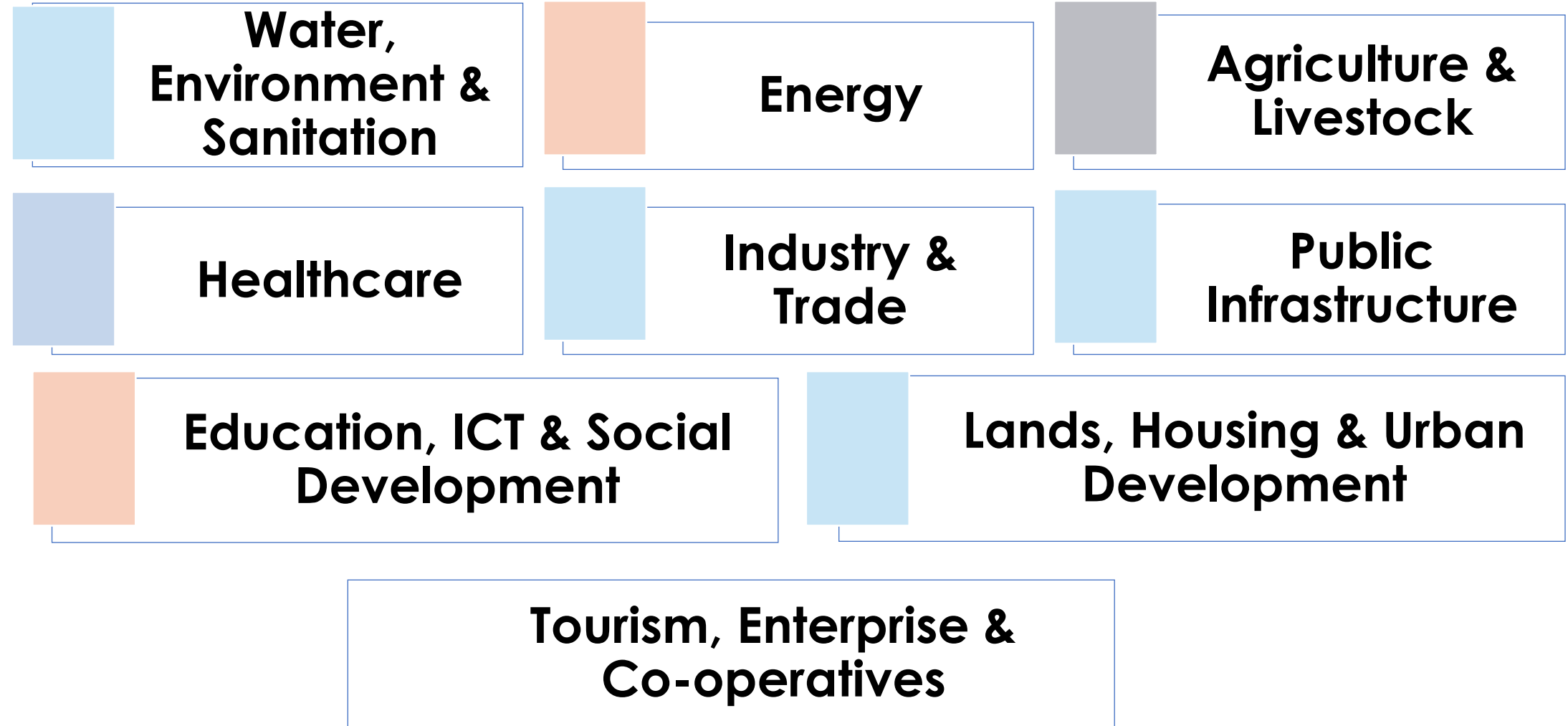
Credit risk assessment - Wajir County

Findings	Opinion
<ul style="list-style-type: none"> Wajir County was assigned a “B+ Ken” Shadow Credit Rating which indicates a county with a weak financial condition and weak 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. Very low own source revenue profile. Qualified audit opinions over the last five years. High personnel expenses above regulatory threshold. Huge and rising pending bills year-on year. 	<ul style="list-style-type: none"> The assigned rating reflects County's stable political environment and modest financial flexibility owing to low leverage profile. The constraining factors are the County's very low own source revenue at less than 1% of total revenue in FYE 2022/23, high personnel expenses at 40.5% of revenue above the 35% limit by PFM Act of 2012, significant reliance on equitable share of income distributed by the Exchequer accounting for 99% of revenue over the last three years, huge pending bills, 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 accounting for over 55% of active labour workforce, huge meat potential for export markets, large land mass, good sunlight and favourable wind velocity suitable for solar and wind renewable energy and deepening of own source revenue using automated collection systems.

Green asset and activity assessment- Wajir County

Findings	Opinion
<ul style="list-style-type: none"> Water Harvesting, Management & Distribution Expansion & Rehabilitation of Sewerage Systems Integrated Waste Management System Establishment of Agro-processing Facilities for hides & Skins Energy Efficiency Development of Renewable Energy Solutions – Solar Farms & Wind Mills 	<ul style="list-style-type: none"> Refurbish and expand water harvesting and distribution networks across the County through Wajir Water and Sewerage Company (WAJIWASCO) - seeking to raise Kshs 5 billion to finance water harvesting through drilling of boreholes and build a supply network that will avail water to about 150,000 households in the County. Solarise water pumping facilities to reduce rising diesel costs associated with harvesting and distribution of water from the current sources. Upgrade and expand existing sewerage infrastructure in urban areas such as Wajir town, Bute and Eldas, as well as construct new sewerage treatment plants, and establish proper sewerage networks in rural areas including toilets. Establishment and implementation of a hides and skin processing facility to enhance the County's industrial and manufacturing capabilities. Use of renewable energy sources (solar) at the Wajir County Referral Hospital to reduce diesel costs. Use of solar energy across government offices, hospitals, state owned enterprises, streets and markets to enhance energy efficiency. Establishment of solar farms at Diff, Tarbaj, Hadado, Bute and Eldas, and wind mills at Wajir West to provide clean and sustainable power to the County.

Green priority areas - Wajir County



Suggested green projects - Wajir County

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

Establishment of Water & Sewerage systems in Urban and Rural areas

Integrated Waste Management system (Waste Handling/Transfer Stations & Waste-to-Energy Facility)

Establishment of Agro-processing facilities for hides & skin

Solarize all Healthcare Centres and upgrade of infrastructure at Wajir Referral Hospital and level 4 hospitals

Energy Efficiency across Sub-County headquarters, hospitals, schools, street lights & markets (by establishing mini-grids)

Development of renewable energy solutions – Solar Farms & Wind Mill

Operationalization of the Wajir Export Abattoir

Green finance capability assessment- Wajir County

Findings	Opinion
<ul style="list-style-type: none"> • Wajir has a County Climate Change Fund (CCCF) Act, 2016 to guide the County on green/climate finance. The regulations which were formulated under the Public Finance Management Act of 2012, commits 2% of the County's annual development budget to climate change. • Limited knowledge on climate finance. • Other County legislations, policies and action plans that support management of green assets and projects include: <ul style="list-style-type: none"> ○ Wajir County Disaster Management Act 2014 ○ Wajir County Water Management Bill 2019 ○ Wajir County Livestock Marketing Bill 2021 	<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. • 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.

Green finance islamic instruments

Wajir County is well-positioned to implement projects by leveraging green finance opportunities with a particular focus on Islamic financial instruments such as:

Sukuks (Islamic Bonds)

Wajir County can issue Sukuks, which are interest-free bonds compliant with Shari'ah principles. These bonds represent ownership in a tangible asset, providing investors with a share of the returns generated by the underlying project.

Green Sukuks

Green Sukuks tailored for environment related projects, can be issued to fund Wajir County's initiatives in renewable energy, environmental conservation and sustainable development.

Musharakah (Joint Venture)

Musharakah, a form of partnership where the profits and losses are shared, could be applied to specific development projects, fostering collaboration between public and private entities.

Ijarah (Islamic Leasing)

Under Islamic leasing, known as Ijarah, the County could lease assets required for its projects, ensuring that the transactions comply with Shari'ah guidelines.

Murabaha

Wajir County could utilise Murabaha (sale of a commodity at a price that includes a profit margin agreed upon by both parties) to finance specific projects aimed at environmental conservation, renewable energy development such as generation of electricity from mini-grids.

Islamic Project Financing

Islamic project financing, involves partnerships such as public private partnerships (PPP) where profits and losses are shared, promoting a risk-sharing model.

Engagement with Islamic Financial Institutions

Collaboration with Islamic banks and financial institutions to facilitate the implementation of Shari'ah-compliant financial solutions.

Recommendations- Wajir County

Financing Options	Opinion
<ul style="list-style-type: none"> County Green Sukuk County-Agency Green Sukuk Special Purpose Vehicle Green Sukuk Public-Private Partnership option Sector/Multi-sector Sukuk Multi County/Regional Block Sukuk Government Grants Development Finance Grants Structured Guarantee Funds Concessionary Funds Results-based Finance Blended Finance Options 	<ul style="list-style-type: none"> Wajir County is properly positioned to implement the suggested green projects by leveraging the green finance opportunities available in line with Shari'ah Principles. Wajir County should explore untapped renewable energy generation capacity owing to the presence of reliable sunlight and wind velocity all year round to support the epileptic power situation due to the absence of the national grid which can ultimately increase commercial activities and boost own source revenue. Wajir 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. Wajir County can utilize various Islamic-related financing options that are fit-for-purpose (such as Sukuk, Musharakah, Ijarah, Murabaha, amongst others) to raise funds to execute priority infrastructure projects. Wajir County can leverage FLoCA funds to execute identified green projects.

Sights of Wajir County



Creating value through **inclusive finance**





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