



Nairobi City 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, Agosto & 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- Nairobi City County

Findings	Opinion
<ul style="list-style-type: none"> Nairobi City County is the largest contributor to Kenya's gross domestic product (GDP) at 27.5% based on the Gross County Product (GCP) 2023 report. Strategically important as the capital of the country as well as the epicenter of financial and technology services in the East African Region. Modest dependence on centrally distributed revenue by the Exchequer which are not timely. Own source revenue generated is over 30% of total revenue. Nonetheless, falls below annual target. High level of outstanding bills which stood at Kshs 107.33 billion at end of the fiscal year 2022/23. Unresolved and outstanding commercial bank loan obligation of Kshs4.5 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"> Nairobi City County can leverage the favourable national government support due to its strategic importance to the country as the capital, to increase its own source revenue. The County's revenue profile is satisfactory. However, improvement is required in deepening own source revenue (OSR) by having a unified business license permit and digitizing all county government processes. 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 existing third-party pending bills and unresolved commercial bank loan. Nairobi City County will need to embrace the Debt Capital Markets for Infrastructure Development financing.

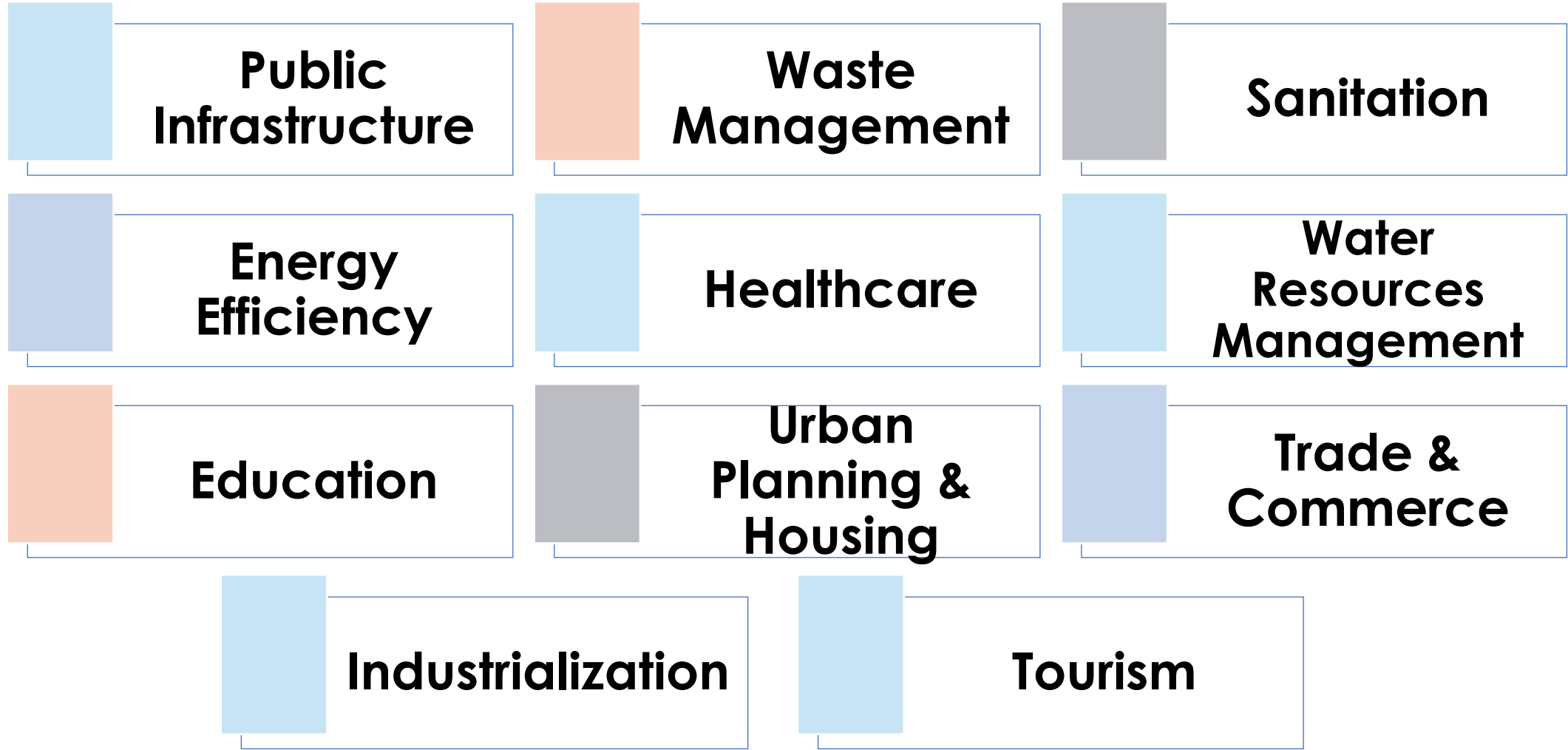
Credit risk assessment - Nairobi City County

Findings	Opinion
<ul style="list-style-type: none"> Nairobi City County was assigned a “Bbb Ken” Shadow Credit Rating which indicates a county with a satisfactory financial condition and adequate capacity to meet obligations as and when they fall due relative to all other issuers in the same country. Modest Financial Flexibility. Satisfactory own source revenue profile. Qualified audit opinions over the last five years. High personnel expenses significantly above regulatory threshold. Huge accumulated pending bills including a protracted commercial loan which the County has defaulted on. 	<ul style="list-style-type: none"> The county’s creditworthiness is supported by a stable political environment, strategic importance to the country as the capital city as well as financial and technology services hub in East Africa, improving governance framework, satisfactory own source revenue accounting for 31% of total revenue in FYE 2022/23 and modest financial flexibility owing to minimal leverage. The constraining factors are the County’s high personnel expenses at 38% of revenue slightly 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 the growing financial and technology regional hub for East and Central Africa coupled with a youthful and mobile population accounting for almost 50% of active workforce and supported by favourable climate suitable for tourist and tourism related activities.

Green asset and activity assessment- Nairobi City County

Findings	Opinion
<ul style="list-style-type: none"> Public Infrastructure Waste Management Sanitation Urban Planning & Housing Energy Efficiency Healthcare Water Resources Management Industrialisation Education Tourism Trade & Commerce 	<ul style="list-style-type: none"> Expand water supply sources, reduce water losses through the use of a metered zoning system, and support future water supply sustainability by revamping infrastructure and treatment plants. Support the Nairobi City Water and Sewerage Company (NWSC) to facilitate the expansion of the sewer system across the County. Improvement of the road network to the Dandora dumpsite, purchase of additional excavators and dozers to compact the waste and proper solar-powered lighting systems at the dump site to operate 24 hours as well as potential waste-to-energy opportunity. Completion of erstwhile abandoned solid waste sorting centers (material recovery facilities) to improve the quality of sorting and recovered material. Enhance non-motorized transportation to reduce greenhouse gas emissions while simultaneously decreasing congestion, which remains a medium-term priority for Nairobi City County. Provision of green infrastructure and incentives to attract investments in manufacturing and value addition to products. Development of affordable green residential housing schemes which conforms with the green building codes and standards such as IFC Edge for the building design. Deliberate policy of energy efficiency at government offices such as City Hall, schools, hospitals, markets and street lighting. Development of green spaces and parks to promote tourism activities.

Green priority areas- Nairobi City County



Suggested green projects - Nairobi City County

Water Harvesting, Management & Distribution (infrastructure & treatment facilities)

Solarize all Healthcare Centres

Integrated Waste Management System & Recycling Centre

Development of Energy Efficient Modern Markets across the County (Muthurwa Market)

Affordable Housing Schemes in various estates (Rent-to-Own/Sell scheme)

City Metro Commuter Light Rail

Road Infrastructure Maintenance (footpaths, drainage & street lighting)

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

Sewage Infrastructure

Development of Green Spaces/Parks

Afforestation & Reafforestation

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

Green finance capability assessment- Nairobi City County

Findings	Opinion
<ul style="list-style-type: none"> Nairobi City County has enacted the County Climate Change Management Bill, 2023 regulations which is expected to guide the County on green/climate finance. Growing knowledge on climate finance. The Nairobi Climate Action Plan (CAP) 2020-2050, developed in partnership with C40 Cities, provides a roadmap for making informed decisions and understanding where and how to achieve the most significant and cost-effective emission reductions while aligning with other county and national policies, strategies, and plans. Other County climate-related plans and policies include: <ul style="list-style-type: none"> The Nairobi Metro 2030 Transport Plan The Integrated Solid Waste Management Plan (ISWMP) for the City of Nairobi (2010) The Draft Clean and Sustainable Energy Policy 	<ul style="list-style-type: none"> Nairobi County has established a legal and regulatory framework to guide the County on green/climate finance in terms of attracting green funds and implementing green projects. Enforcing compliance with established County laws and policies relating to climate change will be important. 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. 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 - Nairobi City 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"> • Nairobi City County is properly positioned to implement the suggested green projects by leveraging the green finance opportunities available. • Nairobi City County enjoys favourable national government support given its strategic importance as the capital as well as its unique location, huge tourist attractions, increasing economic and commercial activities occasioned by the presence of major industries, favourable climatic conditions and strategic positioning as a financial and technology services hub in East Africa to increase its own source revenue, which will enhance its financial flexibility. • Nairobi City 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. • Nairobi City County can utilize various financing options that are fit-for-purpose to raise funds to execute priority infrastructure projects. • Nairobi City County can leverage FLoLoCA funds to execute identified green projects.

Sights of Nairobi City County



Creating value through **inclusive finance**





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