

# SUSTAINABLE INFRASTRUCTURE: PUTTING PRINCIPLE INTO PRACTICE

## GUIDING PRINCIPLE 8: FISCAL SUSTAINABILITY AND INNOVATIVE FINANCING

Infrastructure development should be developed within frameworks of fiscal transparency, financial integrity, and debt sustainability.

## CASE STUDY: SUCCESS OF EAST AFRICA'S DEBUT GREEN BOND ISSUE - THE CASE OF ACORN HOLDINGS

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Affordable housing is inadequate in Nairobi, Kenya. Photo credit: Nina R



### Need for Infrastructure Project/System:

As a fast-growing city with more than 4 million people, Nairobi, Kenya, is home to one of the largest cohorts of young people in Africa - almost one and a half million people are between the ages of 20 and 29 years. This has created a demand for affordable housing and urban infrastructure. While addressing infrastructure gaps, the Kenyan government has recognized the need for an enabling policy and legal framework to facilitate additional climate finance - hence to ensure that new infrastructure contributes to meeting the country's climate goals and the Green Economy agenda.

Through the enactment of the Finance Act 2019 and issuance of the Green Bond Guidelines by the Capital Markets Authority, the government provided the enabling conditions for the successful issuance of the first sustainable infrastructure funding system that is based on an innovative financing instrument - Green Bonds (GB). The law exempts GBs from withholding tax as part of the incentive to encourage more investment in the green bond market. Using GBs as its financial instrument, developer Acorn Holdings is establishing much-

needed affordable green housing. Consequently, Nairobi has become one of the few African cities to successfully draw capital for sustainable infrastructure projects.

### Project Description:

The Green Bond Programme-Kenya (GBPK) aims to promote financial sector innovation by developing a domestic GB market able to shift the economy towards low-carbon and climate-resilient development. In this context, the Acorn GB was issued in October 2019. The total size of the bond is KSh 4.3 billion (US\$40 million). The proceeds of the bond will be used to finance the construction of residential buildings across developments in Nairobi to offer affordable green student housing in the coming years. The project is backed by an international private equity firm and supported by Kenya Bankers association, Nairobi Securities Exchange, Climate Bonds initiative (CBI), Dutch Development Bank, International Finance Corporation, WWF-Kenya, and others.

Since the enactment of the Acorn GB project, eight eco-friendly housing projects – accommodating over seven thousand students – have been funded. Before the project, only 40,000 beds were available to the Kenyan student population of over 500,000 people.

Green building certifications, such as Excellence in Design for Greater Efficiencies (EDGE), were introduced early in the design process, providing credibility and thus allowing for wider acceptance of the bonds. All of the student housing buildings are equipped with solar panels, solar water heaters, and sustainable water management facilities, all of which will reduce the ecological footprint of the grey infrastructure, making it more sustainable long-term.

### Challenges to Making Infrastructure Sustainable:

**Technical and/or Programmatic** – A lack of available local expertise and knowledge on GBs, their benefits, and the mechanisms for obtaining them can inhibit investment initiatives for sustainable infrastructure projects in Kenya. GB issuance has been more complicated and time-consuming than negotiating over grants and concessional loans. Furthermore, the inability to verify green projects locally when the GB Programme launched in 2017 - due to the lack of Kenya-based licensed verifiers - made it more difficult to prepare and obtain the required certification.

**Governance and/or Political Challenges** – A lack of and clear regulatory and policy directions has been challenging for sustainable infrastructure investment, sometimes diverting investors to other, more “safe”, economic sectors or even other countries. There is generally a lack of awareness around the contributions of green financial instruments to national climate or green economy agenda. The contribution of sustainable finance to achieve Nationally Determined Contributions cannot be overstated.

**Financial and/or Economic Challenges** – Low trust in financial returns from the investments can prevent international participation in financing projects. Market volatility, high perceived financial risks, the complexity of GB and the absence of an established GB market can also make GB less attractive for potential investors.

## Outcomes and Lessons Learned:

- As shown by the case of Acorn Holdings, GB can serve as a key instrument to finance environmentally sustainable infrastructure projects with societal benefit.
- To successfully establish a market for GB in Kenya and worldwide, it is essential that policymakers support GBs and provide a conducive regulatory framework and financial incentives, such as tax exemptions.
- A strong system of knowledge-sharing is needed to support stakeholders with applications for GB and licensing of green buildings and more sectors. Technical assistance should be aimed at identifying green investment opportunities and targeting strategic and systemic change in infrastructure.

## For Further Information:

- [Sustainable Infrastructure: Enhancing Economic Benefits \(starting at 12:10\)](#)
- [The Green Bonds Programme-Kenya](#)
- [United Nations Environment Programme. \(2021\). International Good Practice Principles for Sustainable Infrastructure. Nairobi](#)



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