



GREEN FINANCING FOR AFFORDABLE HOUSING

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Housing affordability continues to be a key challenge in Kenya given the current high cost of funding and unavailability of financing amid rising property prices resulting in one third of public sector and urban wage earners living in inadequate housing.

The Government of Kenya's (GOK) affordable housing programme, christened '*Boma Yangu*,' which is one of the governments Big Four Agenda, aims at facilitating affordable and decent housing for Kenyans in all 47 counties in the low and middle-income brackets who are unable to own decent homes due to the prohibitive land and construction costs and stringent financing requirements. It aims at delivering 1 million homes with 800,000 units (bedsitters, 1, 2 and 3 bedrooms) costing between KES.0.8Million (US\$7,788) and KES.3.0Million (US\$29,204) while 200,000 will be social housing units costing between KES.0.6Million and KES.1.0Million.

These affordable housing units are available to lowest paid workers earning less than KES.14,999 per month (about 2.62% of Kenya's formally employed work-force) who will qualify for social housing with homes selling for about KES.500,000. Those earning between KES.15,000 and KES.49,999 per month (72% of workforce) will be offered homes under the tenant purchase scheme while individuals grossing between KES.50,000 and KES.99,000 (23% of the formal workforce, according to the Kenya National Bureau of Statistics) will be offered mortgages at 7% per annum with a repayment period of 15 years.

According to the World Bank's economic update '*Housing Unavailable and Unaffordable*,' Kenya's housing deficit stood at 2 million in 2017 with 61% of urban households living in slums. Annual housing production remains at partly 50,000 units, way below the targeted provision of 250,000 units.

The panacea to Kenya's affordable housing conundrum may be found in the implementation of green finance within project finance structures in various housing projects within the Republic of Kenya. This article will focus on the opportunity offered by green bonds in Kenya through a substantive analysis of the first Kenyan green bond, implemented by Acorn Holdings Limited to create student housing for Kenya's growing youth population.

How does green financing work and what does it involve?

Green financing is any financial instrument or investment including equity, debt, grant, purchase and sale or a risk management tool (investment guarantee, insurance product or commodity, credit or interest rate derivative) issued to a firm, facility, person, project or agency, public or private, in exchange for the delivery of positive environmental externalities that are real, verified and additional to business. Green financing increases levels of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities thereby promoting public-private partnerships for sustainable development.



What is a green bond?

The World Bank, which has been issuing bonds since 1947, issued the first green bond in 2007 creating a new way to connect financing from investors to climate projects after a group of Swedish pension funds wanted to invest in projects that help the climate. Bonds are essentially an agreement where issuers borrow funds from investors and must repay investors at an agreed rate after a specified amount of time. The concept of a bond that is dedicated to a specific kind of project is the history-making quality that fundamentally changed the way investors, development experts, policymakers, and scientists work together. A green bond therefore is a type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects.

Similar in structure and characteristic of standard bonds in terms of seniority, rating, execution process and pricing, the novelty of green bonds is the capital is used in projects like clean energy, energy efficiency, low carbon transport, smart grid, agriculture and forestry and similar projects. They are typically asset-linked and backed by the issuing entity's balance sheet, so they usually carry the same credit rating as their issuers' other debt obligations.

The Climate Bond Initiative reports that the global green bond market has grown exponentially over the past 6 years, with US\$. 170.9 Billion issued in 2018 and US\$. 263 Billion in 2019. Green Bonds issued in Africa include South Africa's first municipal green bond issued in 2014 worth US\$. 101.3 Million and its second issue in 2017 worth US\$. 67.5 Million, Nigeria's 2017 bond of US\$.30 Million, and Egypt's 2020 bond of US\$ 750 Million.

Types of Green Bonds

Green bonds are of three types; **corporate green bonds** issued by financial and non-financial corporations e.g., the Vodafone green bond; **sovereign green bonds** issued by national governments and can either be denominated in the specific country's local currency or in foreign currency; and **sub-National green bonds** issued by cities, counties or government agencies.

Benefits of Green Bonds

Green bonds offer various benefits for both investors and issuers as a means of encouraging climate sustainable growth. On top of providing investors with tax-exempt income, green bonds offer a means of accessing sustainable investments in the fixed income market in a familiar low risk vehicle for investors. Advantageous reputational benefits accrue for issuers due to the requirement of enhanced transparency and disclosure associated with green bond issuance appeals to investors. The bonds provide an ideal opportunity to develop Public Private Partnerships to accelerate the advancement of new technologies and energy efficiency, enable projects at a lower cost of capital, and ensure alignment with current or future climate policies in line with the Paris Agreement.

Funding of Affordable housing in Kenya using Green Financing



Green financing offers cheaper options to fund projects whose bottom line directly impact the environment. Residents of low-income communities are more likely to live, attend school and work in older, less energy-efficient buildings resulting in higher utility costs and negative health and environmental outcomes a problem green financing can resolve. By reducing utility costs i.e., the implementation of solar hot water systems and energy efficient lighting and enhancing people's surroundings, green finance affordable housing improves the environment and produce positive health benefits for residents.

The financing is new in Kenya and we believe the market is ready for it based on the country's first green bond issue subscription rate. It will enable Kenya meet its affordable housing agenda with more housing developers shifting to this sustainable finance. For instance, in February 2013 Housing Finance Company (HFC) secured a KES.1.7 Billion (US\$20 Million) Green Building finance from the International Finance Corporation (IFC). KES.350 Million (US\$.4 Million) of this was funded through the Canada Climate Change Program to finance energy efficient projects particularly homes construction that leads to at least a 20% reduction on water and energy consumed daily. Pan African housing development financier Shelter Afrique is also betting on green financing to fund its affordable housing projects across Africa.

Case Study: The Acorn Holdings Limited (AHL) Green Bond

On 13th January 2020, AHL listed its green bond in the Nairobi Stock Exchange making it the first green bond in East and Central Africa. Days later it was listed in the London Stock Exchange (LSE) making it the first Kenya shilling denominated corporate green bond to be listed in the United Kingdom effectively enabling investors from the LSE to invest in Kenya thus widening the country's investor pool.

Structure of the Bond

The bond offers bond-holders collateral, unlike previous bonds issued in the Kenyan market, thus reducing the risk of loss of capital. It is further backed by a 50% guarantee from Guarantee Company Limited, a Mauritius based private infrastructure Development Company thus protecting the investors of the bond.

Projects of the AHL Green Bond

AHL intends to use the bond's funds on the following projects:

1. Qwetu 3 and 4 United States International University (USIU-A);
2. Qwetu Hurlingham Phase 1;
3. Qwetu Chiromo Phase 1; and
4. Qwetu Sirona Phase 1.

The projects will provide accommodation for university students that are in proximity to a specific project. Average rent out is 100 Sterling Pounds (Kshs. 13, 167) per month however, the Qejani hostels which are a lower variety, will go for 60 Sterling Pounds (Kshs. 7,909). This is affordable considering the services they



offer i.e., internet connectivity, study areas, security, transport and a social community for the students in addition to offering a solution to security and clean accommodation concerns.

Noteworthy is the uptake with AHL having already rolled out three purpose-built student accommodation properties with more than 1,500 beds in reference to the Jogoo Road and Ruaraka campuses. The third property in Parklands opened in March 2019 and the fourth property in Wilson View opened in early 2020 and have received demand like the rest.

In conclusion, the AHL green bond has led the country in introducing alternative forms of investments with a wide range of benefits for investors, the environment and society. Accordingly, investors, developers and the government should leverage green bonds when it comes to realizing sustainable development.
