

TSAVO INNOVATION LAB

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CHANGE MAKER?



TSAVO INNOVATION LAB
SOLUTIONS FOR BIG PROBLEMS

Bonds the answer to financing gaps



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Social innovation, according to Stanford University's centre for social innovation, is a novel solution to a social problem that is more effective, efficient, sustainable, or just.

More importantly, the value created should accrue directly to the society.

In the current global economic environment, counties are finding it difficult to allocate sufficient development funds and this has delayed the implementation of many crucial social initiatives.

A review of Kenya's 2016/2017 financial year budget shows that only 34 per cent of government expenditure has been set aside for development.

There is a growing need for both the national and county governments to explore innovative financial instruments as alternative sources of funding for socially relevant initiatives.

Such alternative financing would allow both the national and county governments to continue to support priority developmental goals with

ever tighter budgets, broaden the base of financial sources, and reduce their dependence on traditional sources of funding.

Social impact bonds are an example of alternative sources of project financing that Kenya should consider.

Such a bond allows private investors to pay for a certain intervention to improve an outcome that is of social or financial interest to the government.

Such bonds are commonly referred to as "pay for success" instruments because an investor puts up the funds for a certain intervention, which the government pays back if the agreed upon outcomes are achieved.

Some 60 social impact bonds have been issued globally, with the first implemented in the United Kingdom in 2010.

Several countries have implemented social impact bonds with great success.

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However, few developing nations

have explored this instrument — only India and Peru have issued a social impact bond.

Social impact bonds would be a great opportunity for the county governments that are struggling to deliver development initiatives due to budgetary constraints.

With the repeal of the Public Finance Management Act 2012, county governments now have the capability to independently source for investment.

Social impact bonds would be good for a number of reasons. First, the county governments would be able to achieve key policy priorities and long-term savings even after repaying the investors. Second, investors would earn back their money with a return depending on the success of the investment.

Finally, the people in the counties would enjoy a measurable difference in their standard of living after the successful implementation of the project.

In June, 2015, Rajasthan, India's largest state by land area, faced