THE EFFECT OF FIRM PERFORMANCE ON IMPACT INVESTMENT IN KENYA: A CASE STUDY OF JAMII BORA BANK

BY
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UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

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BY

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A Research Project Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SPRING 2017
STUDENT’S DECLARATION

I, undersigned, declare that this is my original work and has not been submitted to any other college, or university other than the United States International University in Nairobi for academic credit.

Signed: _______________________________ Date: ____________________

Alan N. Ndirangu (646268)

This project has been presented for examination with my approval as the appointed supervisor

Signed: _______________________________ Date: ____________________

Mr. Kepha Oyaro

Signed: _______________________________ Date: ____________________

Dean, Chandaria School of Business
ABSTRACT

The purpose of the study was to examine the effect of firm performance on impact investment in Kenya, focusing on the case of Jamii Bora Bank. The study aimed to answer the following study questions: To what extent does operational efficiency affect impact investing at Jamii Bora Bank? To what extent does expenditure on social programs affect impact investing at Jamii Bora Bank? To what extent do financial returns affect impact investing at Jamii Bora Bank?

The study used explanatory study as it attempted to lay the groundwork that will lead to future studies on the subject. The study mainly used secondary data that was collected from financial statements of Jamii Bora bank in the light of the research questions. Time series data was collected for the six-year period from 2010 to 2015. To ensure effective and efficient data analysis, data was analyzed using simple linear regression as well as multiple regression analysis in the statistical package for social sciences (SPSS). This helped to determine whether the independent variables (operational efficiency, expenditure on social programs and financial returns) had any significant effect on impact investing. Findings were presented in tables.

Findings indicated that there is a strong positive correlation between operational efficiency and impact investment in Jamii Bora Bank. In other words, an increase in operational efficiency leads to an increase in impact investment. From the findings, operational efficiency explains 77.3% of the variation on impact investment at Jamii Bora Bank.

Regarding the effect of expenditure on social programs on impact investing, it was revealed that there is a positive correlation between expenditure on social programs and impact investment in Jamii Bora Bank. Findings indicated that, expenditure on social programs explains 56.4% of the changes in impact investment in the bank.

On the effect of financial returns on impact investing, findings indicated a strong positive correlation between financial returns and impact investment. At Jamii Bora Bank, financial returns were found to account for 78% of the changes in impact investment.

Jointly, from the multiple linear regression analysis, findings indicated that the correlation between the independent and dependent variables was positive. It was
revealed that operational efficiency, expenditure on social programs and financial returns jointly explain nearly 76% of the variation in Impact investment at Jamii Bora Bank. Moreover, operational efficiency, expenditure on social programs and financial returns have a significant effect on impact investment.

The study concluded that, while expenditure on social programs increases the level of impact investing, the level of the positive impact is not as high as the impact from operational efficiency and financial returns. As such, though investment banks engagement in social programs is likely to encourage more impact investment, care must be taken to ensure that the expenditure on social programs do not affect profitability of the bank greatly. Otherwise, this may reduce the financial returns and operational efficiency which have a relatively higher positive effect on impact investing, which in turn would lower the level of impact investment.

Various recommendations were made among them the need for Jamii Bora Bank to have the willingness to move beyond the idea of an ongoing trade-off between financial and social returns as the market increases in sophistication. Recommendation for further study was that a similar study should be conducted on a different investment bank and the results compared to enhance the reliability and generalizability of the conclusions drawn.
ACKNOWLEDGEMENT

My appreciation goes to the following that made this research project to be a reality:

The Heavenly Father for thorough guidance, not only within the research project period but also throughout my education. My family members; Dr. Florence Nderitu and Tr. June Nderitu, for all the moral support they provided to me throughout the entire period of this research. Finally, my supervisor, Mr. Kepha Oyaro, for his intellectual contribution and support in this research paper.
DEDICATION

I dedicate this paper to my family for their endurance and contribution to my studies.
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<td>AuM</td>
<td>Assets Under Management</td>
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<tr>
<td>DFI</td>
<td>Development Finance Institution</td>
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<tr>
<td>ESG</td>
<td>Environmental, Social and Corporate Governance</td>
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<tr>
<td>GAAP</td>
<td>General Accepted Accounting Principles</td>
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<td>GIIN</td>
<td>Global Impact Investing Network</td>
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<tr>
<td>IBA</td>
<td>Inclusive Business Accelerator</td>
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<td>OE</td>
<td>Operational Efficiency</td>
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<td>OECD</td>
<td>Organization for Economic Co-Operation and Development</td>
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<td>SER</td>
<td>Social and Environmental Return</td>
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<td>SME</td>
<td>Small and Medium Sized Enterprise</td>
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CHAPTER ONE

1.0. INTRODUCTION

1.1. Background of the Study

There are new and innovative approaches aimed at addressing social and economic challenges. Impact investing has become increasingly relevant in the economic settings of today, especially with the mounting of social challenges that is in contrast the pressure placed in public funds in many countries. This type of investing has evolved over the past decades due to an increased interest by individual and institutional investors in tackling social issues, be it in a local, national or global level (Organization for Economic Co-Operation and Development [OECD], 2015).

Porter and Kramier (2011) in their study state that experts suggest that these social or environmental challenges have an impact on a firm’s essential point hence are significant in its internal and external environments. This is a considerable move from the traditional view of businesses which is merely seeking a financial trade-off, but not a loss when taking the social or environmental factors into consideration. This leads to an increasing focus of investing in inclusive businesses by investors, as it presents a form of impact investing as shown by the continuous growth of inclusive businesses over the past decades. The emergence and rise of impact investing by institutional and individual investors is also a good indicator of this focus, due to their interest in seeking innovative ways in tackling social and economic issues in the region or community of operations (Porter and Kramier, 2011).

Before impact investing rose in the 1970s, investors initially used negative screening which involved excluding certain investments from their overall portfolio, such as products that are perceived to contribute to social evils such as tobacco, breweries and weapons among others. While this provided the benefits of aligning the portfolio with the investor’s conservative beliefs, this form of screening can sometimes increase risk by limiting diversification. This would lead to increasing the concentration of investment onto specific firms or sectors that might eventually result in a failure to achieve an expected rate of return in the portfolio (Zhelyazkova, 2015).
Investors would target inclusive businesses, as a form of classification, depending on whether they are large or small entities. The larger businesses appeal mainly to development financial institutions (DFIs) due to their large capital need which the DFIs can provide, as compared to smaller donors or lenders of the smaller businesses such as foundations, microfinance institutions or family offices.

The focus on impact investing is highlighted in a report by Consultative Group to Assist the Poor [CGAP] (2013), which summarized a study conducted from the years 2010 to 2013 by two impact investing industry leaders, J.P. Morgan and GIIN, which had conducted a global scale impact investing survey and collected data from a sample from funds that had at least $10 million in managed assets (AuM). The survey highlighted that impact investors had committed $2.5 billion in 2010, which then increased to $8 billion in 2012, which indicates sectorial growth.

A report by Bridges Ventures (2014) noted that there are three general approaches that are taken by inclusive businesses to address these challenges. The first approach is the place where an enterprise locates its operations in a low-income community and generates economic benefits in the region such as job creation, better infrastructure, or increased tax revenues. The second approach involves the product that the business delivers and how socially beneficial to the community is it. This can range from improving quality or enhancing access to customers that were previously underserved. The third approach is the practices where the enterprise adapts its business model to increase the disadvantaged community’s participation.

Impact investments are distinguished by their specific attribute to generate positive societal effects that include specification on the issues that they are trying to address together with the measurement of the progress against such social or environmental goals (Bridges Ventures, 2014). Some of these issues such as hunger, poor education levels, need for water and sanitation, unemployment, poor infrastructure especially when it comes to need of energy, low levels of financial inclusion in emerging markets and low levels of productivity among others are commonplace targets for charities or foundations to emphasize donations in, as well being the domain for social impact investing.

Koh, Karamchandani and Katz, (2012) stated in their study that a macroeconomic slowdown may make impact investing more attractive for those who are already
engaged as it helps in terms of diversifications and also because assets would be relatively cheap due to the market drop in these periods. Also in these periods, impact investing might be a more attractive alternative, due to how prior to the slowdown the market had mispriced risk prior, making them more willing to adjust their expectations for appropriate returns given appropriate risks. In these periods, there would be less opportunities of investing in traditional financial markets, increasing the ability or need of market players to recruit top talent that would make a point of investing with a purpose beyond merely financial returns. These enterprises need access to capital to grow, just as any other form of business but face greater obstacles than other firms due to the emphasis on impact other than profitability.

Some governments have also taken some steps into the impact investing role by providing support through subsidies, grants or tax credits, among other roles. These provisions might be implemented at the local, national and international level, though they may not be universal, region-wide, or nationwide, due to the differences in the local context, experience and objectives between countries. At a national level, impact investing is a process of capacity development for the conception, management and growth of successful inclusive businesses (Koh et al. 2012). Capacity development in this case takes the form of providing direct capital access, mentorship and enterprise development activities to ensure the businesses’ success. This includes how impact investors set up their portfolios to deal with challenges that these businesses face.

A Global Impact Investing Network [GIIN] (2015) report highlights that in developed economies as well as emerging markets, impact investments present different kinds of impact opportunities that are tied in with different sets of risk presenting very different legal issues, intermediaries and deal structures. That is, there are no two similar markets, like South America is different than South East Asia or in the African context, Ghana is different from Kenya. In this regard, investors take a portfolio approach where they make informed decisions on what amount of funds they should allocate to distinct markets.

A continuous interest in emerging markets is also noted by Koh et. al (2012), where there is an increasing focus on rapidly growing markets such as India and South Africa where there is a strong connection between investments and benefits to the public through opportunities such as infrastructural and economic development which
are limited by access to capital committed to such initiatives. Some investment opportunities are also focused on provision of products to low income communities in emerging as well as developed markets. An interesting point to notice is that the return expectations that investors expect from investing in inclusive businesses in emerging markets is higher than that of a developed nation. This is also highlighted in the findings of GIIN (2015) where impact investment funds in emerging markets returned 9.1% to investors as compared to 4.8% for developed markets. A focus of this was in Africa where the returns were at 9.7%.

Impact investment can potentially define or provide new ways of allocating private and public capital in a more efficiently and effective manner to address social challenges at the local, national and global level (OECD, 2015). These innovative approaches may not necessarily replace the main role of the need of philanthropy and the public sector in addressing social and economic issues, but they do provide methods of leveraging current capital using market-based approaches with the aim of having greater impact.

1.2. Statement of the Problem

Inclusive businesses at most times usually pioneer innovative business models which tailor to the needs of markets that are underserved. This means that they can access customers in regions that are hard to reach and such people are usually resource scarce due to having low incomes (Koh et al, 2012). Unfortunately, the support that such businesses receive from the government to thrive in these regions are seldom. This is disadvantageous to early stage inclusive businesses, which require intensive support that ranges from business plan development to operational and scaling expertise. The results of such support determine the nature (type) and amount of investment that they might attract.

Per a report by Merrill Lynch (2015), two-thirds of investors are not even sure of whether there are competitive returns to be gained from social impact investments. This uncertainty is justified by the reduced performance and higher risk that may be experienced with the negative screening techniques that were used in the initial impact investing years. These investments also tend to go in a different direction from the traditional firm objective of maximizing shareholder value. In fact, the first
implementers of impact investing are institutional investing who are also taking an increasingly formalized approach to impact investing.

Currently, there is still minimal available data concerning impact investing with a social approach as it is an incipient field and therefore there is further need to understand its impact on a community’s welfare (OECD, 2015). Some of the approaches used in data collection and scope estimation in this field still require strong assumptions or has other limitations, but being able to efficiently collect comprehensive data would enable one to build better understanding of the market. As such, even reporting about the effects of impact investing strategies are subject to the investor’s definition and take this under consideration when undertaking such strategies, hence resulting in limited studies done on this field of impact investing.

1.3. Purpose of the Study
The main purpose of the study was to examine the effects of firm performance in inclusive businesses in Kenya to impact investing. For this study, Jamii Bora Bank was selected as the case of study.

1.4. Research Questions
The following questions guided the study:

1.4.1. To what extent does operational efficiency affect impact investing at Jamii Bora Bank?
1.4.2. To what extent does expenditure on social programs affect impact investing at Jamii Bora Bank?
1.4.3. To what extent do financial returns affect impact investing at Jamii Bora Bank?

1.5. Importance of the Study
The study is of value to various groups discussed below:

1.5.1. Investors
The study might provide some value to investors as this field of impact investing currently contains numerous actors like prominent family offices or clients of top
private banks who request their portfolio managers to present them with better solutions other than just pure philanthropy or traditional investment.

Private foundations are another key actor in impact investing as they collaborate with development financial institutions, other foundations and investment banks to make investments in areas that are related to their mission of addressing social challenges that may range from challenging the perils of global warming, the suffering of people in low income communities, whether they are from African slums, Indian village or even in U.S. inner cities.

Other parties of interest are private equity funds, which aim for capital growth in their investments that generate social returns, mutual funds, pension funds or sovereign wealth funds that dedicate their assets or substantial resources to growth firms that are committed to generating social returns.

1.5.2. Inclusive businesses

The study might benefit inclusive businesses as, from a financial standpoint, many of these enterprises are not able to get access to key seed financing, which in some instances, for example, usually range from $10,000 to $100,000 to build on their business model and grow to a stage where they can take on larger investments to scale up their operations (Bridges Ventures, 2014). This is noted in many African countries where these enterprises are at a stage where they are too large to be able to qualify for microfinance but are too small for traditional investment.

The challenge continues even though these inclusive businesses fall in the category of small and medium sized enterprises (SMEs), which constitute most overall businesses in emerging markets, but still have trouble in accessing credit and would tend to avoid investment contractual terms that are unfavorable to their overall objective. The study hence will be able to provide them with information that would highlight how they bring value to the communities that they operate with which would enable them to be able to better provide their case to potential investors.

1.5.3. Regulators

The study might benefit the market regulators such as the government, impact investor associations and impact investing networks, which play a key role in the
regulation and support of funds that are invested to support the economic development of communities in low income areas. The public sector has a catalytic role in this sector in terms of helping develop and create a regulatory environment that is conducive and allows for greater transparency. The study aims to show information that pertains to how the enterprises generally operate and measure impact value to the communities that they are based in, which regulators can use and see if the answers are in line with their overall objectives and own metrics and find out on how they can deliver value to support the operations of these businesses.

1.6. Scope of the Study
The study was limited to cover to examining investor concerns when engaging with inclusive businesses revolving around dimensions namely the operational efficiency, sustainability of its community engagements and financial benefits accruable when investing in the enterprise. The study population was drawn from Jamii Bora Bank in Kenya and consisted the financial statements of a seventeen-year period; 1998 - 2015. Time limitations were mitigated by limiting the cover of the study to a two-month period, that is months December 2016 and January 2017.

1.7. Definition of Terms

1.7.1. Inclusive business
While there is not a clear definition as to what constitutes an inclusive business, a study by Smith and Darko (2014) tested the definition as a business that tackles social or environmental challenges, such as addressing job needs of the local community while prioritizing impact over profit. The Inclusive business is a business model that presents a hybrid format where it not only operates commercially to present financial returns to its owners, but also aims to achieve social aims.

1.7.2. Impact Investing
Impact investing is defined by GIIN (2016) as the investments that are made into organizations and funds with the intentions of generating a measurable social, economic and environmental impact, along with a financial return.

Other general terms for this type of investment are environmental, social and governance investing (ESG), values based investing (VBI) and socially responsible investing (SRI), that might have some distinctions from the impact investing
definition, but overall mostly share common elements of strategic investing aimed at positive societal change. This definition separates it from a standard donation or grant as there is an expectation of return on capital and it can exist across all asset classes from public equity, private equity, real assets, venture capital and cash.

1.7.3. **Development Finance Institution (DFI)**
Romero (2014) defined a Development Finance Institution as a “government-controlled institution that invests in private sector projects in developing countries”. DFIs engage in the support of private sector projects and mobilization of additional private finance. Most these institutions are supported by government development agencies, donors and in addition can raise additional financing through the private sector such as the capital markets or banks.

1.8. **Chapter Summary**
The chapter covers the background information on impact investing and its link to inclusive businesses, also known as social enterprises., the statement of the problem and the purpose of the study, research questions, importance of the study to various stakeholders such as the investors, inclusive businesses and regulators, the 30% of the study and definition of key terms are also discussed. The next chapter reviews the relevant literature for the research guided by the research questions posed in chapter one. Chapter three will focus on the research methodology that was used to guide this study, explaining the population under study, sample size and data collection method. Chapter four analyzes the data and finally chapter five presents the findings of the data including the conclusion and recommendations for further research.
CHAPTER TWO

2.0. LITERATURE REVIEW

2.1. Introduction
The chapter details the literature reviewed relating to the impact of investing in inclusive businesses. The study arrays the framework for the three main research questions. It mainly presents information from literature that gave answers to the research questions by linking the research questions with the statement of the problem and the purpose of the study. The research questions provide the guideline for the literature review.

2.2. Effects of Impact Investing on the Efficiency of the Inclusive Business

2.2.1. Institutional theory
Coined by Hoskisson, Eden, Chung, and Wright (2000) in their research, this theory attempts to explain the “impact contextual systems have on organizational behavior and economic performance”. They quoted North’s (1990) definition of institutions as providing the rules of the game in a society or more formally, the humanly devised constraints that shape human interaction. The institutional theory is comprised of three components as noted by Scott (2008) namely, the normative, regulatory and cognitive. He defined normative as the acceptable behavior and values of individuals and organizations. The regulatory component includes the political power and laws that regulate both individuals and entities and the cognitive component refers to the influences that develop through social interaction. Peng (2003) noted in his study that entities, like those in the field of law and finance, tend to be more fully developed and effective in developed countries as compared to developing countries.

A lack of institutional support in developing countries leads to the higher cost of doing business, which is a major impact (World Development Report, 2002). Bruton, Fried, and Manigart (2005) had in in their study proposed that all the three components of the institutional theory can be used to study developments in global venture capital. Ahlstrom and Bruton (2006) applied Scott’s framework in their research of venture capital firms in East Asian countries and determined that regulatory institutions in those nations are generally weak and that the normative
institutions are impacted significantly by overseas commercial and entrepreneurial cultures from China into their countries. These regulatory institutions provide legal protection for investors and support effective capital market systems development. Investors in the private equity space require fully developed financial and legal institutions together with a robust capital markets, strong entrepreneurial culture presence as well as developed infrastructures (Scheela and Isidro, 2008).

2.2.2. Contingency theory

Schmid (2006) in his study noted the contingency theory that was developed by Fiedler in 1967 that claimed that leadership patterns and the style of management need to be adapted to the specific organizational context. For inclusive businesses, the environment which surrounds them bring about opportunities, risks, challenges, and constraints that the entity must cope with, for it to be a going concern. Because organizations vary in their ideologies, goals, objectives, organizational cultures, and core activities, as well as in the characteristics of their human resources, professional expertise levels and level of psychological and professional maturity, they will behave differently in their choice of leaders (Moreau and Mertens, 2013)

Looking at the definition that Defourny and Nyssens (2006) in their research gave inclusive businesses, which they termed as social enterprises, are organizations that are active in the economic sphere, the production of goods and services, are the result of citizens’ initiatives where a desire motivates them to bring about community benefits and regarding the material interests of those who provide the necessary capital for the enterprises, of which the capital is limited. These are enterprises which perform business more differently than the traditional or classic manner as evidenced by private businesses, as they tend pursue a social objective more so than maximizing profit. Their decision-making process is not solely based on the amount of capital contribution, as is in line with the principle of democratic governance.

These entities are active in different sectors that range from production of renewable energy, waste recycling, work integration and training, home care services, development co-operation, fair trade, alternative banking/finance, among others. They also present a very market oriented profile in certain cases such as the bulk of their production is financed through the market, whereas in other cases, they appear to belong to the non-market sector, such as private donations or subsidies.
2.2.3. The bottom of the pyramid

Adwera (2011) in his research stated that Kenya’s private sector has for long been dominated by entrenched, expansive entities since post-colonial times. Post-independence Kenya was involved with endeavors to kick off the economy through arrangements adapted at wealth creation and poverty alleviation. In the previous four decades, eradication of poverty has been a key order of the administration, with backing from development partners (Adwera, 2011).

However, the previous couple of years have seen a movement in demeanors in Kenya, with the ascent of new hybrid forms of entities developing products and working at fighting poverty. These entities are portrayed by authority from until now standard privately owned businesses that beforehand did not see the market potential of low income communities. Another remarkable trademark is the component of association and free coalitions among several development actors (Adwera, 2011).

Per Prahalad (2004), these entities are additionally rising out of sectors that beforehand had little to do with development-related activities in the country, for example, financing, telecommunications, environment and sanitation and protection. In recent years, proponents of the 'base of the pyramid' hypothesis have contended that the decades ahead have a place with organizations that perceive low income communities as current or potential markets as opposed to them being a problem—a contention with resonance in Africa, with more than a billion people at the base of the pyramid.

Mahajan (2009) stated particularly about the open doors in Africa and gave a case of local firms that have thrived by addressing the requirements of the numerous poor instead of a couple of the rich. In addition to this, there is a growing literature that takes a gander at the part of hybrid enterprises in poverty alleviation. These undertakings have recognized the poor as a potential business sector for their items. Supporters of the 'Base of the Pyramid, for example, discussed about the potential to discover riches that are untold from the world's four billion poorest individuals (Prahalad, 2004).

2.2.4. Operational status of inclusive businesses

The social economy has traditionally comprised of a network of enterprises that are organized as associations, cooperatives, foundations or friendly societies, where their
activities are based on the principles of social welfare and solidary. Profits generated via their operations are strictly monitored as personal gain is outlawed, meaning that it should be reinvested. Their financial resources, in general, include a share of public money (Guézennec and Malochet, 2013).

Based on research by Barthélémy, Keller, Lensing-Hebben and Slitine (2013) into the Inclusive business sector in France, total employment was at 2.34 million in 2010, which represents 10% of the working population, the largest numbers, of which are employed in finance, training, health and social activities. As a parallel to this, in the last 20 years, some profit-making ventures profited immensely in the banner of social entrepreneurship, with their operations being in the environmental and social sectors.

With regards to funding, social entities gained access to capital through increasing their equity capital, notably by opening their capital up to the investment market, or by debt financing. However, such organization have difficulty in getting private capital as access to institutional funding, for example, pension funds, is marginal and more so limited to risk capital and banks. The reason argued for this is that the financial instruments have never been designed for entities with such sizes, aims or a form of legal status or corporate governance which are peculiar to the nature of entities in the Inclusive business sector (Barthélémy et al., 2013).

There is the common perception of high risk that is associated with such social entities, that is enough to deter or repel investors, who especially are risk averse especially after the financial and economic crisis of 2008. This perception is explained by the very nature of the Inclusive businesses’ operations that are aimed in servicing the least solvent and vulnerably members of the society. Thus, to the classic investor’s eyes, this leads to a lack of strong conviction to the viability of the entities activities, a lack of guarantees as to their investments (Barthélémy et al., 2013).

As an addition to this, these entities are usually paradoxically requested to provide to the investors high return prospects, as investors are looking for financial gains of 15 – 20%, whereas the return on investment for social entities is approximately 0 – 5% (Barthélémy et al., 2013). Size is also another element in explaining why it is difficult for such entities to access private funding. Most Inclusive businesses lie within the small to medium size range, and the initial funding requirements for such entities are
often too minimal, hence too costly to gain the interests of classic private investment funds.

Guézennec and Malochet (2013) in their study noted that the legal status of social entities can be a private funding curb as well, due to such status minimizing the probability of the investors to be remunerated. This was noted in France, where cooperative ventures’ social shares were not revalued. If an external investor decides to sell his shares, this can deter a potential investor as such shares are sold to the entity at their nominal value.

This does not mean that all difficulties are present social entities as they are often found during its startup, where potential for financing is confronted with high risk and limited-sized project. This was noted in a survey into inclusive businesses in India, where it was observed that difficulty in accessing funding varies per the development state of the entity and usually tends to decline when the initial start-up phase has been achieved (Guézennec and Malochet, 2013).

2.2.5. Scaling and operational efficiency

IBA Ventures (2016) highlighted the improvement of social and financial impact for an inclusive business through a term called scaling. They defined scaling as ‘the increase of impact and financial results over time’ which can be due to the growth in total number of customers served or the goods and services delivered and therefore having an increase in the number of low-income people embedded in the business model.

With respect to the increase in wages to employees, they pointed out that there are four different categories of scaling, that is, scale deep, where the enterprise becomes more efficient in its operations towards servicing the same stakeholders, clients, suppliers, personnel and entrepreneurs resulting in a reduction in operational cost per product provided. The second category is scaling up where the business gets more customers, personnel, suppliers among other stakeholders with its operations remaining constant. The third category is scale out which includes the development of new products or modification of existing products in existing markets. The fourth category is scale across which includes the development of new products for new clientele with new suppliers, personnel or entrepreneurs (Kayser, O. and Buninich, V., 2015).
Small Enterprise Assistance Funds (SEAF) Investments (2007) agrees to the link between scaling and operational efficiency, as a research that they conducted in 2005 that aimed at investigating the ratio of the national average wages versus wages of a pool of 38 inclusive businesses found out that 12 of these businesses’ wages were approximately 37 percent higher than the national average. 20 of the businesses had wages above the national average wages and 15 of these businesses were below the national average wage and 3 of the businesses were on par with the national average wage. The businesses firms that had wages below the national average had higher proportions, of approximately 80 percent, of semi-skilled to unskilled labor, with unskilled labor being in the majority. They also noted that these businesses tend to train these portions of labor, that is scaling deep, which eventually lead to an increase in wages that surpasses the national wages (SEAF Investments, 2007).

2.3. Effects of Impact Investing and the Inclusive Businesses’ Social Programs

2.3.1. Social reports
Measuring social impact remains to be a notable challenge, especially when judging it to a firm’s performance. In the 1970’s-80’s period, some firms like General Motors published annual reports which contained select social practices of the enterprise. Initially, they had the appearance of self-serving or public relations articles, whereas others contained hard to prove information as firms were free to pick issues and data that showed them in a good image (Thomas, 2003).

This was because there was no independent body establishing generally accepted accounting principles for social reports, leaving the task to social screeners. Examples include the Business Ethics magazine with its Business Ethics 100 where they rank firms in a specific criterion that includes ranking in categories such as the women, minorities and community in general. There is the Domini Social Equity fund excludes major military contractors, international oil companies, and tobacco and liquor companies while focusing on human rights, environmental good practice and similar factors (Mackenzie and Lewis, 1999). There is the Dow Jones and FTSE that have developed indexes which reflect commitment to a sustainable environment or a more general orientation toward socially responsible practices. The end result is still a patchwork of standards with considerable academic debate concerning the validity of alternative measures (Thomas, 2003).
To bring about standardization, Global Reporting Initiative (2015) developed Sustainability Reporting Guidelines after extensive study of a range of firms from different industries and nations that experiment with social reports. These new phase of social reports, that came about in the late 1990s seemed to be at least less self-serving than previous versions in the past decades. However, it is still very difficult to compare the reports, due to the wide range of social issues confronting a company and the practices that can be reported upon.

Until there is a common General Accepted Accounting Principles (GAAP) for such reporting, comparison would be impractical and even meaningless as it is limited to the opinions of the analyzers. The development of a GAAP equivalent for social reporting will require the establishment of a respected profession of social auditing. In turn, the profession of social auditing will require vigilant self-regulation supported by oversight by a global equivalent of the United States Securities Exchange Commission. Firms would not be required to issue such reports, but if they do so, the reports must meet the standards established by the profession” (Thomas, 2003).

2.3.2. Social return on investment analysis

The global economic changes and shifts in the international business environment make the old systems of management principals only practical in a partial sense. Investment questions changed from what is the return on investment to what is the investor’s total financial, social and environmental return on investment. This would involve asking more in-depth questions such as what is the net environmental and social impact of the money one is investing or spending, how sustainable is this impact in the long term, what is the state of the management practices that drive that sustained impact and of systems of accounting for those practices and impacts and who is accountable for the answers to these questions among others.

Olsen and Galimidi (2009) in their study, discussed about Social Return on Investment (SROI) analysis being a process that allows one to find the answers to the questions highlighted above. The analysis enables an understanding of the net environmental and social impact relative to investments made. Just as there are myriad tools which managers use to track financial performance for strategic decision-making to maximize profit, SROI enables them to measure and optimize positive impact. The analysis is parallel to financial return on investment as it strives
to comprehensively assess the value that is generated relative to the investment made, with the addition that it also focuses on the non-financial value made which includes qualitative, quantitative and even narrative information to capture this fuller spectrum of the value derived from the investment (Olsen and Nicholls, 2005).

\[
SROI = \frac{\text{Net Social Impact} + \text{Net Environmental Impact}}{\text{Net Investment}}
\]

SROI analysis uses information that is collected from an organization’s human resources, financial and operational records and combines it with both primary and secondary research that is made from the current and potential outcomes that result from the firm’s sales and operations. There have been practitioners who have written papers which describe how this process is done. Below is an outline of six important components in SROI analysis and impact management, as noted by Olsen and Galimidi (2009) in their study:

2.3.2.1 Stakeholders and operations
One of the components is to understand the scope of the organization’s operations and the stakeholders involved or affected. This include answering questions such as where the organization perform its business, where does its derive its factors of production such as raw materials and human resources, how does it produce, sell and dispose of its products, are there any environmental or social impacts that are significant in its work and who are the main parties that are affected by its operations such as its production or products presence in the marketplace (Olsen and Nicholls, 2005).

2.3.2.2. Scope of analysis
It is essential to define the boundaries of the analysis, as SROI implies a comprehensive analysis of the net impact of the organization under review, such as the period. This includes answering questions such as whether the analysis will be a summary of one or more years, if it would look at past performance or predict the future performance (Scholten, Nicholls, Olsen, and Galimidi, 2006). There are no conventions that have been widely adopted to determine the appropriate timeframe over which the impacts related to organization’s operations would be assessed, which requires the organization to make transparent the choice of timeframe and the rationale behind its selection (Olsen and Nicholls, 2005).
2.3.2.3. A base case scenario
This refers to what would happen in the absence of certain organizational operations and determines an estimate by considering what would be the case if the entity operated in the same way as the industry standard (Olsen and Nicholls, 2005). This approach can be quantitatively and qualitatively defined using existing empirical research done in the same circumstances with a substitute control state or by measuring the pre/post-states of the entity’s own operations.

2.3.2.4. Data collection and indicators
The leading indicators which are associated with key assets must be selected together with collection of the data. In order to identify the priority indicators, it is helpful to determine to define the organization’s impact value chain (Olsen and Galimidi, 2009). The leading impact indicators are activities and outputs which are easy for the organization to track during its normal operations. Some of the leading indicators are like the number of products produced or sold, costs of distribution and energy, number of jobs created, amount of wages and salaries handed out, the stages of training or education provided, health visits offered, which may not be currently tracked but can be obtained through methods such as observing directly, use of surveys and preparing estimates on the indicators (Scholten, Nicholls, Olsen, and Galimidi, 2006).

It is imperative to view the social and environmental implication of these indicators through a different lens. In secondary research, the leading indicators are tied to the associated outcomes and it is in this part of the research that many believe the social measurement outcomes may not be very practical for both entities and investors, which is false. Organizations do not have to conduct nor hire experts to conduct its random experimental design studies, which are studies that involve subjects and control groups and its representative sample sizes, in order to know what impact its operations and products presents (Olsen and Galimidi, 2009). Some organizations do conduct such research, but it is possible to obtain such significant information by proxy.

A noted example of this is the estimated carbon emissions a normal person can calculate when flying from Bangkok to Hyderabad. While one might not have to conduct an independent study to measure the engine's efficiency or ask the airline to
say how much fuel the plane already used and how many passengers and crew were aboard. One can simply look up the average emissions per flight mile per passenger for domestic air travel, which has already been extensively researched upon by many environmental scientists already. Such choices regarding which impacts are important or significant will change as new evidence is found over time (Scholten, Nicholls, Olsen, and Galimidi, 2006). With that, the model which links the leading indicators to the outcomes should be updated periodically.

2.3.2.5. The analysis
When all the pieces are in place, a model will be established which highlights the major impacts, which are the difference between what has happened and the base case scenario, that are driven by select leading indicators and the model will relate the results to the financial performance (Olsen and Galimidi, 2009).

After the model is built, the organization only needs to enter the leading indicator data to understand its social and environmental return on investment and make updates on a periodic basis to the outcome assumptions and data. The SROI analysis will result in a point in time summary of the items other than financial gain, namely, net social and environmental impact relative to investment, financial performance relative to the entity’s own financial goals (Olsen and Galimidi, 2009). Regular performance of the analysis will enable trends to be visible. The analysis thus organizes the management of environmental and social drivers together with the financial drivers.

2.3.2.6. Impact management
Even though the management knows what social and environmental impacts the organization delivers, this does not exactly mean that they are managing it. Just like traditional performance management, impact management involves not only the development but maintenance of the entire system which includes having clear goals, a decision making process that flows throughout the organization and results accountability (Olsen and Galimidi, 2009). And finally, communication is key form in impact management as the value of this tool is increased exponentially if the organization’s key stakeholders can understand it.

2.3.3. Balanced Scorecard (BSC)
The Balanced Scorecard is one of the tools that is included in the management tools in the business management concepts (Kaplan, 2001). It is a strategic performance
measurement and management tool that is designed as a communication, information and learning system to measure where the entity is now and where to aim for next. It presents a plan for translating the vision and strategic plan of the entity into concrete action steps across four measures or perspectives at different stages depending on the type of business that the entity does. The perspectives are namely the financial, internal processes, customer, learning and growth, where they are all connected through a cause and effect relationships that reflect the entity’s strategy.

This tool could be easily transferred to nonprofit organizations, as noted by Kaplan and Norton (1996). It could also be used as a pathway for learning to shape the strategy and the process of financial management practices in the Inclusive business (Morrison, Deakins and Galloway, 2002)

Some criticisms emerge when examining the applicability of the BSC model to nonprofit entities, such as the view that the BSC is tailored to reflect the financial impacts and do not necessarily focus on social performance (Paton, 2003). Even after the amount of investment made in the performance measurement systems, there is little experimental evidence on their impact towards the investment (Zingales and Hockerts 2003). In addition, Brignall (2003) notes that the BSC is criticized for its failure to note the social or environmental issues as well as its absence for having a people perspective.

Deakins, Morrison, and Galloway (2002) in their research notes that there are few studies that address the use of the BSC in small entities. In the case of such firms, they develop and evolutionary process view of financial management and propose for the inclusion of learning, innovation and environmental influences upon small entities would be a more integrated approach for the understanding of issues in processes that are still under-researched. These entities call for a modified BSC approach that is refined for them (small entities such as SMEs) that will represent the decision-making processes with regards to finance processes, influenced by social and environmental factors that include among others, suppliers, creditors and customers.

This presents arguments for a more balanced and evolutionary approach that needs to consider the qualitative aspects of the decision-making behavior and key learning by the small entities. Somers (2005) research highlighted that the BSC need for a social enterprise scenario should include incorporation of social goals, broadening of the
financial perspective to focus on sustainability as well as the customers’ own perspective to be widened to capture the wider group of stakeholders.

In addition, an organization called the Social Firms UK developed an online dashboard that is intended as an integrated management performance tool that uses core and non-core measures to develop certain action plans that relate to Inclusive businesses, which is set up to help people with disabilities but can be easily adapted to other contexts. It is based upon the same principles as the BSC, but with an addition of being more user-friendly and practical, although it appears to be more of a working level tool rather than a strategic tool and is time consuming to initiate. These developments of the BSC tool provide an understanding of the challenges in importing business models into an inclusive business context and are usually a trial and error process (Bull and Crompton, 2009).

2.4. Effects of Impact Investing on the Inclusive Businesses’ Financial Return

2.4.1. Social venture capital
Private capital has become more relevant as a form of funding social sector activities, with governments across finding it increasingly difficult to fund these activities. The global industry impact investing is predicted to grow from a recorded $ 50 billion, in assets, in 2009 to around $ 500 billion in a decade’s time, which translates to a constant annual growth rate (CAGR) of 25%. Top impact investing organizations such as GIIN, the Rockefeller foundation and JP Morgan have estimated that the potential profit that impact investors can get across sectors such as housing, maternal health, primary education, rural water delivery and financial services could range between $ 183 billion to $ 667 billion in the next decade from and estimated invested capital of $ 400 billion to $ 1 trillion.

In their study, Thillai and Smitha, (2011) noted that the Aspen Network of Development Entrepreneur conducted a research in 2012 and counted about 199 impact investing funds spread across the globe which invest in the developing and under developing nations due to the potential that these regions present as well as the need for social development. With regards to this, there are many social venture capital funds that are looking in investing in African and Asian countries. The social
sector has been a constant source of innovation and due to these new securities that link financial returns to social impact are been created together with tools of finance to generate returns from social activities.

There are specialized agencies such as Social Finance and Endeavour that help social entrepreneurs to gain access to global markets. Another tool of financing comes from social impact bonds that are being used by government agencies from developed countries such as the U.S., the U.K., Canada, Australia and Israel that reward the investors in line with the achieved results or impact. If the social impact was achieved as desired, the investors would be rewarded and if not, they would lose the capital that they invested. These include private capital investments from commercial investors to philanthropists to fund initiatives in the social sector.

Social venture capital funding is believed to be an effective way of unlocking private capital and being able to direct the much-needed funds towards the social sector that requires it at a global scale.

2.4.2. Equity Financing

Abdulsaleh and Worthington (2013) in their study stated that with problems associated with information opacity and moral hazard being severe in the initial growth stages of small entities development, a critical source of funding for these entities is internal equity financing, which can be best portrayed as the personal savings of the owner or manager. But in later stages of business growth and development, the entity should reduce its dependence on this source and seek alternative methods of raising capital. Some options of equity financing include internally generated profits and venture capital.

Ou and Haynes (2006) defined equity financing as “the capital invested in the firm without a specific repayment date, where the supplier of the equity capital is effectively investing in the business”. Equity financing can be raised through internal or external means. Internal equity here is the funds that are obtained from the current owner, or his family and friends, or from retained earnings gotten from the firm’s profits. External equity on the other hand is capital that is acquired from external channels (Abdulsaleh and Worthington, 2013).
For a firm, equity financing is preferable than debt financing especially for new or young SMEs as they experience typical shortages in cash and inability to secure collateralized loans in the initial stages of growth (Ou and Haynes, 2006). Another favorable position of equity financing is that it has the choice of financing for a long-haul period with interest being one of expenses resulting in minimal cash outflow. Also, it has the benefit of helping to enhance a young firm’s creditability by highlighting that the firm has the approval of financial experts.

Abdulsaleh and Worthington (2013) stated that there are two scenarios in which small firms would pursue equity financing to meet expansion needs. The first situation is when the entities face financial distress that is coupled with a lack of being able to root to alternative finance sources while the second situation is when the cash outflows exceed the inflows generated from regular sources. This attitude could be attributed to the reluctance of commercial lenders to provide financing to the entity due to uncertainty about its going concern or growth opportunities. This results to such firms being classified as high risk.

In opposition to this, Schäfer, Werwatz and Zimmermann (2004) in their study of modes of financing selected by SMEs in Germany found that risky entities are more likely to receive equity financing. There are other arguments such as Dawson (2011) who quoted Reid’s study that suggested that some owners of these entities may choose not to use equity as a mode of financing to avoid undesirable changes in the ownership of their firm. But there are other owners who may select funding from external equity so that they can share the risk with investors who are not risk averse in nature. Bhaird (2010) in his study quoted stated that the importance of external equity financing should be based on the potential of the receiving entity and not on the quantity in which the firm utilizes it.

2.4.3. Portfolio investing
The Morgan Stanley Capital International Index, which is an internationally diversified portfolio, of sorts, unsurprisingly has the lowest level of risk, to the extent that it is lower than the U.S. equity market (Moreau, and Mertens, 2014). The reason for this is that the risk associated with the equity markets in the individual states is unsystematic and hence can be defeated via diversification, as may be indicated by the relatively low market betas. This shows that international investing can substantially
reduce the risk of the returns of the portfolio. In financial terminology, this is considered as pushing out the efficient frontier, which is the set of portfolios that have the maximum expected return for a certain level of risk as well as the smallest possible standard deviation for its level of expected return (Moreau, and Mertens, 2014). This allows investors to reduce their risk and increase their expected earnings simultaneously.

Mertens (2010) in his study noted that the sector of Inclusive business is going through significant changes such that it is expanding with a certain form of sophistication in conjunction with the social demands. The enterprises partners, field workers and clients are far more numerous together with being diversified as well as new forms of competition increasing in number as fewer subsidies become available to certain Inclusive businesses.

Public funding is also being transformed in that it gets into more and sets up competition between investors and lenders in a quasi-market. Hence competition may arise between the Inclusive businesses and other forms of for–profit entities that produce the same type of goods and services. Corporate social responsibility also adds onto this competition together with the legal and institutional frameworks that lead to more complexity. Davister (2010) notes that as this transformation occurs, there will be a certain level of professionalism that can be observed in the Inclusive businesses, which will affect the entire sector and bring about other changes, the evolution in management practices.

A crucial aspect of these enterprises is the need to develop structures that are adaptable to the ever changing environment, therefore the management of these entities is becoming increasingly important and these changes will put into question the position and role of managers of these enterprises (Moreau, and Mertens, 2014).

2.4.4. Blended Value

Blended value is the perception that all organizations make value that consists of economic, environmental and social value (Emerson and Bonini, 2004). Firms are increasingly concerned with how to maximize economic value as well as their environmental and social value. Mainly through corporate social responsibility (CSR) strategies, operations and business applications attempt to blend both environmental and social considerations.
Firms are increasingly realizing that by improving on the positive social impacts, their operations can maximize shareholder value while simultaneously addressing the concerns of other stakeholders. Whereas firms deal with rising stakeholder pressure to include social responsibility as part of their corporate make up, there also a tendency to monitor the impact that these social programs are having on their intended audience. For the firms, social strategies, just like other business decisions, necessitate for an analysis of whether the social programs’ returns outweigh the costs incurred in setting them up and sustaining it. For the investments in social programs, the purpose is not presumably to maximize the financial return expected, but to precipitate on a broader set of blended returns, that is the economic, environmental and social returns. Economic value creation can be measured through well-designed, existing metrics that capture financial performance, such as return on investment (ROI), nevertheless, there are no similar for the most part acknowledged measurements for social or environmental value creation (Kramer and Cooch, 2006).

In that capacity, there is a powerful urge to discover approaches to gauge the blended return of social investments. Without assessing the blended return made by CSR activities, vital (social) contemplations and effects on the enterprise, employees, external stakeholders, and society everywhere, would tend to be underestimated in the operational decision to put resources into CSR. Social Return on Investment (SROI) speaks to a developing methodology that tries to address some of these issues (Carleton Centre for Community Innovation (3CI), 2010).

Olsen and Nicholls (2005) noted in their study that SROI can be utilized by organizations to educate their social investment decisions. SROI can be utilized to recognize and survey, among a scope of potential social investment opportunities, which hopefuls hold potential to produce the best social effect with respect to financial investments. The consideration of social factors gives a more precise assessment of risk and return for CSR ventures, and can encourage enhanced due diligence. Capturing measurements before investments are made can likewise give a valuable standard to compare to while evaluating social impact.

2.5. Chapter Summary
This chapter provided literature review as per the research questions. The study discussed the benefit of impact investing in Inclusive businesses in terms form of
operational and financial growth, the impact of the Inclusive business in the community that it is serving and the returns that the investor can expect from impact investing. The next chapter covers the research methodology. Research design, the population, sample size, data collection instruments and methods of data analysis is discussed.
CHAPTER THREE

3.0. RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes the research design employed in this research. It describes the population, sampling techniques, sample size, research procedures, data collection method and finally data analysis. This section includes a blueprint for data collection, measurements and analysis is constituted.

3.2. Research Design
The research design constitutes the blueprint for the collection, measurement, and analysis of data. It is a plan and a structure of investigation so conceived as to obtain answers to research questions (Charemza and Deadman, 2007). The plan is the overall scheme or program of the research. The research design is the plan aimed at achieving the objective (Cooper and Schindler, 2011).

The research design used in this study was explanatory in nature. According to Pride and Ferrell (2007), explanatory research design deals with answering the following questions: where, who, when, what and how related with a certain research problem, with no interference from the researcher. This design was selected as the study sought to acquire information regarding the present status of the phenomena with minimal bias. Explanatory statistics was valuable and the most appropriate research design since it brought out the relationship and causal effect of operational efficiency, social programs and financial returns on impact investing.

3.3 Population and Sampling Design

3.3.1 Population
Population is the set of all the individuals of interest in a study (UN, 2009). The study was to determine the impact of investing in inclusive business models also known as inclusive businesses. The population consisted of data from financial statements of Jamii Bora bank from 1998 to 2015. The population comprised of the actual operations highlighted from its operational expenses to sales revenue, the expenditure on social programs (CSR and donations) and the financial returns, gotten from its net profit/loss over the period highlighted.
3.3.2. Sampling Design and Sampling Size

3.3.2.1 Sampling Frame
A sampling frame is the set of source materials from which the sample is selected (Turner, 2003). A sampling frame gives a clear list of elements from which the researcher can draw a sample of the target population. For this study, the sampling frame was data received from Jamii Bora Bank’s financial statements from the years 1998 – 2015.

3.3.2.2 Sampling Technique
Sampling techniques involve the different ways that the researcher can classify and choose the sample. There are three types of study noted in Barreiro, and Albandoz, (2001) study:

Probability sampling is where each sample has the same probability of being selected whereas purposive sampling is where the person selecting the sample tries to make the sample representative, depending on his purpose, thus being the representation subjective. The third type of sampling is the no-–rule sampling is where a sample is selected without any rule and is mostly used in cases where the population is homogeneous and there is no selection bias (Barreiro and Albandoz, 2001).

The sampling technique employed in the study was non-probabilistic sampling as it did not involve random sampling. Variables were studied using the data available from the financial statements of the firm under study.

3.3.2.3 Sampling Size
Cooper and Schindler (2011) stated in their study that the sampling size is the number of sampling units which are to be included in the sample. Data was collected from Jamii Bora Bank financial statements for a six-year period (2010-2015). A sample size adequate for a study is 30%, per Mugenda and Mugenda (2003). Thus, since Jamii Bora bank has been existent for 17 years, data from the bank for a 6-year period (which is approximately 35% of 17) was therefore deemed to be adequate.

3.4. Data Collection Methods
The main method of collecting data in this research was the desk study. Secondary data is data used for a research project that was originally collected for some other
purpose. The data used included historic data gotten from the financial statements, with the purpose of helping form a good understand how the operational, social and financial returns of the firm affect impact investing. Two checklists were used to collect the data required. The first one was used to collect data on the inflow of impact investments into the enterprise under study. This was to collect the value of investments inflow into the entity during the specified period. The second checklist was used to collect data on the independent variables. That is, operational efficiency of the entity, growth of the social programs and the financial returns to the investor for every corresponding year as shown in the appendix.

**Table 3.1. Data on financial elements summary**

<table>
<thead>
<tr>
<th>Financial Element</th>
<th>2010 (Figures are in KES '000)</th>
<th>2011 (Figures are in KES '000)</th>
<th>2012 (Figures are in KES '000)</th>
<th>2013 (Figures are in KES '000)</th>
<th>2014 (Figures are in KES '000)</th>
<th>2015 (Figures are in KES '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Net assets=capital employed</td>
<td>1,008,597</td>
<td>1,057,441</td>
<td>1,190,583</td>
<td>2,250,639</td>
<td>3,105,473</td>
<td>4,338,192</td>
</tr>
<tr>
<td>Total deposits</td>
<td>1,003,725</td>
<td>1,107,994</td>
<td>2,337,602</td>
<td>3,420,588</td>
<td>8,484,930</td>
<td>11,557,831</td>
</tr>
<tr>
<td>Investment revaluation reserve</td>
<td>27,588</td>
<td>32,931</td>
<td>35,590</td>
<td>63,313</td>
<td>100,572</td>
<td>51,286</td>
</tr>
<tr>
<td>CSR Expenditure</td>
<td>1,007,719</td>
<td>1,129,816</td>
<td>1,187,305</td>
<td>1,290,033</td>
<td>1,311,197</td>
<td>1,578,691</td>
</tr>
<tr>
<td>Operating Expenses to Sales Revenue</td>
<td>0.61</td>
<td>0.57</td>
<td>0.55</td>
<td>0.51</td>
<td>0.53</td>
<td>0.47</td>
</tr>
<tr>
<td>Total debt to total assets</td>
<td>0.44</td>
<td>0.39</td>
<td>0.41</td>
<td>0.37</td>
<td>0.42</td>
<td>0.41</td>
</tr>
<tr>
<td>Total asset turnover</td>
<td>1.13</td>
<td>1.11</td>
<td>1.19</td>
<td>1.21</td>
<td>1.30</td>
<td>1.33</td>
</tr>
<tr>
<td>Cash Flow Balance</td>
<td>1,017,903</td>
<td>1,033,195</td>
<td>1,193,277</td>
<td>1,081,054</td>
<td>2,849,896</td>
<td>3,671,588</td>
</tr>
<tr>
<td>Net profit/loss</td>
<td>88,991</td>
<td>88,735</td>
<td>89,964</td>
<td>93,887</td>
<td>19,686</td>
<td>37,183</td>
</tr>
</tbody>
</table>

**3.5. Research Procedures**

The researcher conducted the pilot testing on the financial statements on a select three-year period (2007 – 2010) of Jamii Bora Bank in which the enterprise had received funding from impact investors and this period was not part of the final data collection process. Correlation was done on values obtain from different periods and it was ascertained that there was consistence in the data collected. The pilot test is carried out to ensure the reliability of the data collection instrument (Collis and
Cooper and Schindler (2011) note also that pilot testing is conducted to detect weakness in design and instrumentation and to provide proxy data for selection of a probability sample. It should draw subjects from the target population and simulate the procedures and protocols that have been designed for data collection.

No amendments were needed after the data study hence the desk study was selected for the collection of the data. The researcher explained the purpose of the research and sought permission from Human Resources at Jamii Bora Bank to carry out the research, which was done with a letter of introduction received to them via physical visit to the Headquarters. When the permission was given, the financial statements relating to the sample size were then compiled up for analysis.

3.6. Data Analysis

Data analysis involves reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper and Schindler, 2011). Correlation was done on values from the data collected and then consistency in the data collected was ascertained.

Data analysis was done through data cleaning, after the data was collected, it was chronologically arranged. From there, the data was then analyzed using descriptive statistics, regression and correlation analysis to establish the relationship between investing and the enterprise. This analysis was calculated through the aid of Statistical Package for Social Sciences (SPSS).

The dependent variable used in the analysis was the performance of the inclusive business whereas the independent variables were operational efficiency of the entities, expenditure on social programs and net financial returns made. Correlation between the three were examined to determine the relationship, and hence their impact on impact investing.

Multiple regression analysis was then used to determine whether the independent variables (operational efficiency, expenditure on social programs and financial returns) had any significant effect on impact investing.

The multiple regression equation used for this study was:
\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \]

Where:

Y = impact investing, X1 = operational efficiency, X2 = expenditure on social programs, X3 = financial returns, \( \beta_1, \beta_2 \) and \( \beta_3 \) = Partial Slope Coefficients and \( \varepsilon \) = Error Term

The purpose of data analysis was to highlight the results of the data collected and make it more illustrative through presenting it in the form of tables to make it easier to observe the general trends.

### 3.7 Chapter Summary

This chapter covered the research methodologies employed in this study, population and sampling design, data collection methods, research procedures and finally data analysis. The main data analysis tool was the SPSS software and the data collected was presented through tables. The next chapter looks at the results and findings of the study.
CHAPTER FOUR

4.0. RESULTS AND FINDINGS

4.1. Introduction

This chapter presents data analysis, findings, interpretation and presentation. It presents the quantitative analysis of the secondary data collected from Jamii Bora Bank. The data was gathered from the financial statements of the company as well as from the Nairobi Securities Exchange. The chapter gives the interpretations of findings from the analysis of the secondary data. A regression model was applied to determine and establish the relationship between operational efficiency, expenditure on social programs and financial returns on impact investing at Jamii Bora Bank. Findings were organized in the light of the objectives of the study.

4.2. General Information

Table 4.1. Outlook of Jamii Bora Bank

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Value/Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Years in Operation</td>
<td>17</td>
</tr>
<tr>
<td>b) Vision</td>
<td>Transforming Lives through Innovation</td>
</tr>
<tr>
<td>c) Mission</td>
<td>Delivery of Impactful Financial Services</td>
</tr>
<tr>
<td></td>
<td>Over 360,000 saving customers and approximately 20,000 borrowing customers</td>
</tr>
<tr>
<td>d) Customer Base</td>
<td>Accounts; Small Enterprise Loans; Personal Banking, Medium Enterprise Loans; Agri-banking;</td>
</tr>
<tr>
<td>e) Products/Services</td>
<td>Institutional Banking; Mortgage Banking</td>
</tr>
</tbody>
</table>

Founded in 1999, Jamii Bora bank has been in operation for 17 years. The bank is on a mission to deliver impactful financial services with a vision of transforming lives through innovation. Its customer base constitutes of customers who save in and borrow from the bank. Currently, the bank’s saving customers are more than 360,000 with approximately 20,000 borrowers. They have a variety of products including accounts; small enterprise loans, personal banking, medium enterprise loans, agri-
banking, institutional banking and mortgage banking. Some of the major investors in the bank include Acumen Investments, Catalyst Principal Partners among others.

To examine the relationship between each independent variable and the dependent variable (Impact investment), tests for normality were done where Kolmogorov-Smirnov and Shapiro-Wilk test for normality were used to detect departures from normality. The tests reject the hypothesis of normality when the p-value is less than or equal to 0.05 (Shapiro and Wilk, 1965). Simple linear regression analysis was then done to determine the extent of the effect of each independent variable on the dependent variable. Another multiple linear regression analysis was done to establish the effect of the independent variables jointly on the dependent variable.

4.3. Effect of Operational efficiency on Impact Investment

4.3.1 Normality Test

Table 4.2. Tests of normality for impact investment/operational efficiency

<table>
<thead>
<tr>
<th></th>
<th>Kolmogorov-Smirnov</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistic</td>
<td>Sig.</td>
<td>Statistic</td>
</tr>
<tr>
<td>Unstandardized Residual</td>
<td>.117</td>
<td>.121*</td>
</tr>
</tbody>
</table>

* This is a lower bound of the true significance.

Lilliefors Significance Correction

Regarding the relationship between operational efficiency and impact investment, the Kolmogorov-Smirnova and Shapiro-Wilk statistics were 0.117 and 0.571 respectively. The associated P-values were 0.121 and 0.571. This implies that the variables were normally distributed since the p-values were higher than the significance level of 0.05 (not significant at p < 0.05).

4.3.2 Linear Regression Analysis

Operational efficiency was mainly measured from financial ratios including operating expenses to sales revenue. The total debts to total assets ratio, the total asset turnover as well as changes in operating cash flow were also considered. Change in these aspects was regressed against change in the levels of impact investment.

Table 4.3. Regression estimates for impact investment/operational efficiency
From the results of the linear regression, $R^2 = 0.773$ and $R = 0.879$. This is an indication that there is a strong positive correlation between operational efficiency and impact investment in Jamii Bora Bank. The $R^2$ indicates that 77.3% of the variation on impact investment at Jamii Bora Bank is attributed to the bank’s operational efficiency. The findings imply that an increase in operational efficiency such as total asset turnover, fixed asset turnover and equity turnover leads to an increase in impact investment.

The ANOVA test indicates that operational efficiency has a significant effect on impact investment since the P value is actual 0.045 which is less than 5% level of significance, as is depicted by linear regression model $Y = B_0 + B_1X_1 + E$ where $X_1$ is the operational efficiency the P value was 0.045 implying that the model $Y = B_0 + B_1X_1 + E$ was significant. Moreover, the regression coefficients indicate that there is positive gradient which reveals that an increase in operational efficiency leads to increased impact investment. It can thus be inferred from the findings that Jamii Bora
Bank or any other investment back for that matter should be keen on keeping their operational efficiency levels at a constant increase to competitively win the commitment of the investors.

The importance of operational efficiency in improving future firm performance cannot be ignored. For-profit corporations exist to make a profit. Past researchers had confirmed this using accounting ratios to measure the operational efficiency of the firm and to test the relationship between operational efficiency and future firm performance in several countries. To survive and prosper, firms should produce their output from input efficiently, consume less input for unchanged output, reduce operational costs without damaging the firm, reduce the number of days in the cash conversion cycle, improve operating cash flows, increase total asset turnover, and putting into effect reductions to operating risk, all of which highlight indications of relative operational efficiency. Therefore, operational efficiency can be used as a proxy for competitive advantage, which affects the firm’s current profitability and its future potential performance (Gill et al, 2014).
4.4. Effect of Expenditure on Social Programs on Impact Investment

4.4.1. Normality Test

Table 4.4. Tests of normality for impact investment / expenditure on social programs

<table>
<thead>
<tr>
<th></th>
<th>Kolmogorov-Smirnov&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>Sig.</td>
</tr>
<tr>
<td>Unstandardized Residual</td>
<td>0.139</td>
<td>0.241&lt;sup&gt;+&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

* This is a lower bound of the true significance.

Lilliefors Significance Correction

The Kolmogorov-Smirnov and Shapiro-Wilk statistics for the relationship between expenditure on social programs and impact investment on test for normality were 0.139 and 0.962 respectively. The associated P-value was 0.241 and 0.881. The p-values were greater than the significance level of 0.05 (not significant at p < 0.05) which implies that the variables were normally distributed.

4.4.2. Linear Regression Analysis

Expenditure on social programs was measured from the changes in corporate social responsibility (CSR) expenditure, which were then regressed against the change in the levels of impact investment.

Table 4.5. Regression estimates for impact investment/ expenditure on social programs

<table>
<thead>
<tr>
<th></th>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R</td>
</tr>
<tr>
<td></td>
<td>0.751</td>
</tr>
</tbody>
</table>
From the linear regression analysis, it was noted that \( R^2 = 0.564 \) and \( R = 0.751 \). This is an indication that there is a positive correlation between expenditure on social programs and impact investment in Jamii Bora Bank. The results imply that in this bank, expenditure on social programs explains 56.4% of the changes in impact investment. In addition, the results of ANOVA test indicate that expenditure on social programs has significant effect on impact investment since the P value actual is 0.037 (which is less than 5% level of significance). Linear regression model depicts this:

\[
Y = B_0 + B_2 X_2 + E \quad \text{Where } X_2 \text{ is the expenditure on social programs.}
\]

The P value of 0.037 implies that the model is significant. The regression coefficients also depict a positive gradient and this implies that an increase in expenditure on social programs leads to increased impact investment. Even so, measuring social impact has been affirmed to be a notable challenge, especially when judging it to a firm’s performance. Thomas (2003) observes that, in the 1970’s-80’s period, some firms like General Motors published annual reports which contained select social practices of the enterprise. Initially, they had the appearance of self-serving or public
relations articles, whereas others contained hard to prove information as firms were free to pick issues and data that showed them in a good image.

Servaes and Tamayo (2012) while examining under which circumstances social programs expenditure may be beneficial, they focused on the customer channel and examined the effect of a potential moderating variable, advertising intensity, on the social expenditure-firm value relation. They revealed that whenever a firm advertises itself, it helps in reducing the information gap between itself and the market, which, in turn, makes it more likely that customers will notice its involvement in social programs and reward the firm for its social programs efforts.

4.5. Effect of Financial Returns on Impact Investment

4.5.1. Normality Test

Table 4.6. Tests of normality for impact investment / financial returns

<table>
<thead>
<tr>
<th></th>
<th>Kolmogorov-Smirnov</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>Sig.</td>
</tr>
<tr>
<td>Unstandardized</td>
<td>.135</td>
<td>.230*</td>
</tr>
<tr>
<td>Residual</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* This is a lower bound of the true significance.

Lilliefors Significance Correction

Kolmogorov-Smirnov and Shapiro-Wilk statistics for test of normality were 0.135 and 0.877 respectively. The associated P-values were 0.230 and 0.783 respectively. Like in the previous cases for operational efficiency and financial returns, the p-values were greater than the significance level of 0.05. This implies that impact investment and financial returns were normally distributed too.

4.5.2. Linear Regression Analysis

Changes in returns from various investments were regressed against the change in the levels of impact investment to establish the existing relationship between financial returns and impact investment.

Table 4.7. Regression estimates for impact investment/ financial returns
From the linear regression analysis, $R^2 = 0.780$ and $R = 0.883$. This is an indication of a strong positive correlation between financial returns and impact investment. The $R^2$ indicates that at Jamii Bora Bank, financial returns account for 78% of the changes in impact investment. Findings from the ANOVA statistics lead to the conclusion that financial returns have significant effect on impact investment. This is because the $P$ value actual was 0.041 which is less than the 5% significance level. The linear regression model $Y = B0 + B1X1 + B2X2 + B3X3 + E$ depicts this, where $X3$ is financial returns. The $P$ value of 0.041 implies that the model was significant. The regression coefficients also reflect a positive gradient which is an indication that an increase in financial returns results increases the value of impact investment at Jamii Bora Bank.

4.6. **Joint Effect of Operational Efficiency, Expenditure on Social Programs and Financial Returns on Impact Investing**

The linear regression model used in the study was as follows: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + E$ Where:

$Y$ is the Level of impact investments.
$X_1$, $X_2$ and $X_3$ is operational efficiency, expenditure on social programs and financial returns respectively.

$\beta_0$ is the level of impact investments at zero operational efficiency, zero expenditure on social programs and zero financial returns while $E$ is the error term.

### 4.6.1. Coefficient of Determination

#### Table 4.8. Coefficient of Determination

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted Square</th>
<th>R Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.871</td>
<td>0.759</td>
<td>0.725</td>
<td>4.003</td>
</tr>
</tbody>
</table>

Dependent Variable: Impact investment

Predictors: (Constant), operational efficiency, expenditure on social programs, financial returns

Analysis indicates that the correlation coefficient (R) was 0.871 which indicates that the correlation among the independent and dependent variables is positive. The coefficient of determination (R Square) was 0.759 (75.9%). This indicates that nearly 76% of the variation in the dependent variable (Impact investment) is explained by the independent variables (operational efficiency, expenditure on social programs, financial returns).

Per Dixon et al (2007), various tools have been developed to assess impacts in terms of the environmental, social and economic effects of real estate projects of a community, project and firm basis. However, such measures tend to be underdeveloped in relation to the social dimension. Hence impact investing shares the same objectives of mainstream social responsible investing, especially in terms of combining social, environmental and ethical goals in decision-making (that is, setting objectives, selection, retention and realization of investments) but it places, at least in principle, greater emphasis on both measurement in general, and on the social dimension of investing and investment recipients in particular.
4.6.2. Analysis of Variance

Table 4.9. Analysis of Variance (ANOVA)

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>61.77</td>
<td>3</td>
<td>12.37</td>
<td>37.59</td>
<td>0.00</td>
</tr>
<tr>
<td>Residual</td>
<td>2.91</td>
<td>215</td>
<td>0.04</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>64.68</td>
<td>218</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Predictors: (Constant), Operational efficiency, Expenditure on social programs, Financial returns

From the analysis of variance (ANOVA) results, the calculated Z score (F statistic) was 37.59 as compared to the Critical Z score which was 2.99 at 5% significance level. This confirms that null hypotheses should be rejected and alternative hypothesis accepted that operational efficiency, expenditure on social programs and financial returns jointly have a significant effect on impact investment. Roberts et al (2007) observed that impact investment involves the combination of social, environmental, financial and administrative objectives in capital application and the measurement of impact produced by the actual investment process.

4.6.3 Regression Co-efficient

Table 4.10. Coefficients of Regression

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.93</td>
<td>0.18</td>
<td>1.75</td>
<td>0.06</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td>8.01</td>
<td>0.06</td>
<td>7.12</td>
<td>3.20</td>
</tr>
<tr>
<td>Expenditure on social programs</td>
<td>3.47</td>
<td>0.04</td>
<td>3.21</td>
<td>1.77</td>
</tr>
<tr>
<td>Financial returns</td>
<td>9.81</td>
<td>0.04</td>
<td>9.19</td>
<td>3.41</td>
</tr>
</tbody>
</table>

Dependent Variable: Impact investment

From the regression coefficients, the regression model can be constituted as follows:
$Y = 0.93 + 7.12X_1 + 3.21X_2 + 9.19X_3 + E$

Where $Y$ is Impact investment; $X_1$, $X_2$ and $X_3$ is operational efficiency, expenditure on social programs and financial returns respectively and $E$ is the Error term.

The results of the regression model indicate that, if all the independent variables (operational efficiency, expenditure on social programs and financial returns) were held constant, the level of impact investment would rate 0.93. In contrast, if the independent variables are considered, the model indicates that a change in one unit of operational efficiency would lead to a positive change in impact investment by 7.12 units. Similarly, a change in one unit of expenditure on social programs and financial returns would positively change impact investment by 3.21 and 9.19 respectively. The results imply that financial returns have the highest positive effect on impact investment followed by operational efficiency and expenditure on social programs respectively.

4.7. Chapter Summary

This chapter presented the results and findings on relationship between operational efficiency, expenditure on social programs and financial returns on impact investing at Jamii Bora Bank. Analysis indicated that operational efficiency explains 77.3% of the variation on impact investment at Jamii Bora Bank. Similarly, expenditure on social programs and financial returns account for 56.4% and 78% of the changes in impact investment respectively. The ANOVA tests indicated that operational efficiency, expenditure on social programs and financial returns have a significant effect on impact investment since their respective P values actual (0.045, 0.037 and 0.041 respectively) were less than 5% level of significance. From the combined variables, regression analysis, the regression model was constituted as $Y = 0.93 + 7.12X_1 + 3.21X_2 + 9.19X_3 + E$ Where $Y$ is Impact investment; $X_1$, $X_2$ and $X_3$ is operational efficiency, expenditure on social programs and financial returns respectively and $E$ is the Error term.
CHAPTER FIVE

5.0. DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter presents the summary of findings, conclusions and recommendations. The chapter also gives suggestions for further studies. All these is in the light of the objectives of the study which were: to investigate the effect of operational efficiency on impact investing at Jamii Bora Bank; to examine effect(119,525),(997,626) of expenditure on social programs on impact investing at Jamii Bora Bank and to evaluate the effect of financial returns on impact investing at Jamii Bora Bank.

5.2. Summary

The purpose of the study was to establish the effect of operational efficiency, expenditure on social programs and financial returns on impact investing at Jamii Bora Bank. The study sought to answer three main research questions: (i) To what extent does operational efficiency affect impact investing at Jamii Bora Bank? (ii) To what extent does expenditure affect social programs impact investing at Jamii Bora Bank? (iii) To what extent do financial returns affect impact investing at Jamii Bora Bank?

Explanatory research design was applied. The study largely used secondary data collected from the statements of Jamii Bora Bank. Regression analysis was done to establish the relationship between the variables. The linear regression model used in the study was as follows: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + E$ Where: $Y$ is the Level of impact investments; $X_1$, $X_2$ and $X_3$ is operational efficiency, expenditure on social programs and financial returns respectively. $\beta_0$ is the level of impact investments at zero operational efficiency, zero expenditure on social programs and zero financial returns while $E$ is the error term. Tests for normality were also done where Kolmogorov-Sminov and Shapiro-Wilk test for normality were used to detect departures from normality.

In the first research question, the extent of operational efficiency on impact investing, it was evident that there is a strong positive correlation between operational efficiency and impact investment in Jamii Bora Bank. In other words, an increase in operational
efficiency leads to an increase in impact investment. From the findings, operational efficiency explains 77.3% of the variation on impact investment at Jamii Bora Bank.

For the second research question, effect of expenditure on social programs on impact investing, it was revealed that there is a positive correlation between expenditure on social programs and impact investment in Jamii Bora Bank. Findings indicated that, expenditure on social programs explains 56.4% of the changes in impact investment in the bank.

In the third research question, the effect of financial returns on impact investing, findings indicated a strong positive correlation between financial returns and impact investment. At Jamii Bora Bank, financial returns were found to account for 78% of the changes in impact investment.

Jointly, from the multiple linear regression analysis, the regression model was constituted as \( Y = 0.93 + 7.12X_1 + 3.21X_2 + 9.19X_3 + E \). Kolmogorov-Sminov and Shapiro-Wilk statistics for test of normality indicated that all the variables were normally distributed. The ANOVA tests indicated that operational efficiency, expenditure on social programs and financial returns have a significant effect on impact investment since their respective P values actual (0.045, 0.037 and 0.041 respectively) were less than 5% level of significance. Findings indicated that the correlation between the independent and dependent variables was positive. It was revealed that operational efficiency, expenditure on social programs and financial returns jointly explain nearly 76% of the variation in Impact investment at Jamii Bora Bank. Moreover, operational efficiency, expenditure on social programs and financial returns have a significant effect on impact investment.

5.3. Discussion

5.3.1. Effect of Operational Efficiency on Impact Investing at Jamii Bora Bank

Various measures in terms of ratios may be considered in determining operational efficiency. These include ratios related to the Cash Conversion Cycle and measures for Firm Size were taken from Gill and Biger (2013). An important aspect of corporate efficiency is the cash conversion cycle because it impacts firm performance in the future. For example, if the cash conversion cycle of a production firm increases,
the firm will face cash flow problems. Cash flow problems may lead to financial distress. Ratios related to Operating Expenses to Sales Revenue were also recommended by Ohlson and Penman (1992). Current changes in overall operating expenses impact the OE as well as future firm performance. Ratios related to Total Debt to Total Assets suggested by Hossan and Habib (2010).

The debt ratio, which is total liabilities to total assets calculates the firm’s financial leverage. The higher level of a firm’s leverage increases financial distress risk which in turn increases the risk of bankruptcy. Ratios related to Total Asset Turnover were recommended by Homsud and Choksuchat (2012). Asset turnover measures the efficiency of a company's use of its assets in generating sales revenue, which is important for present and future firm performance. Measures related to the operating cash flow were also proposed by Gill, Biger, and Tibrewala (2010). Operating cash flow measures the efficiency of cash conversion cycle. The study mainly considered operating expenses to sales revenue; total debts to total assets ratio and the changes in operating cash flow.

The results of this study indicated that there is a strong positive correlation between operational efficiency and impact investment in Jamii Bora Bank. This means that an increase in operational efficiency leads to an increase in impact investment. From the findings, 77.3% of the variation on impact investment at Jamii Bora Bank is attributed to the bank’s operational efficiency. From the ANOVA results, operational efficiency has a significant effect on impact investment. In addition, the regression coefficients indicate that there is positive gradient which reveals that an increase in operational efficiency leads to increased impact investment.

The findings concur with those of Gill et al (2015) who investigated the relation between operational efficiency changes and future performance changes of Indian manufacturing firms through the application of a correlational research design. A sample of 244 firms was selected from the top 500 companies listed on the Bombay Stock Exchange (BSE) for a period of five years (from 2008–2012). The findings of the study indicated that changes in operational efficiency play a role in the future performance of Indian manufacturing firms.
Similarly, Dietrich (2010) examined the impact of efficiency on profitability using a panel of 11,728 UK manufacturing firms for the period 1993–2007, and found that above the threshold, operating efficiency positively impacts short-term profitability. Moreover, Rahman and Farah (2012) investigated the indicators of profit in Bangladesh’s non-banking financial institutions (NBFIs) industry and found out that operating efficiency improves profit potential.

5.3.2. Effect of Expenditure on Social Programs on Impact Investing at Jamii Bora Bank

The linear regression analysis indicated that there is a positive correlation between expenditure on social programs and impact investment in Jamii Bora Bank. The results imply that in this bank, expenditure on social programs explains 56.4% of the changes in impact investment. In addition, the results of ANOVA test indicate that expenditure on social programs has significant effect on impact investment. The regression coefficients also depicted a positive gradient and this implies that an increase in expenditure on social programs leads to increased impact investment.

There is a substantial theoretical literature suggesting that social programs activities can enhance profitability and, hence, the value of the firm. Berman, Wicks, Kotha, and Jones (1999) provide an excellent overview of the various elements of social programs and the ways in which these activities can increase firm value. The concern is that the costs associated by social programs activities sometimes do not outweigh the benefits. In fact, empirical studies on the relation between the value of the firm and social programs activities find mixed results, including several studies reporting negative relations [see Griffin and Mahon (1997) – for a differing view see Roman, Hayibor and Agle (1999)].

First, customers take into consideration firms’ social programs activities when making purchase decisions (see, for example, Brown and Dacin (1997); Creyer and Ross (1997); Sen and Bhattacharya, 2001; Bhattacharya and Sen, 2004; Penn Schoen and Berland Associates, 2010). Some of this research suggests that consumers are willing to pay a higher price for products of firms with more social programs engagement but other studies indicate that, even though some consumers are not willing to purchase
products at a higher price, more likely than not they will purchase them from more socially responsible firms.

These findings support Baron’s (2001) original insight that a practice labeled as socially responsible increases the demand for its (the firm’s) product. This strategic social program is simply a profit-maximizing strategy motivated by self-interest. In this context, social program is considered a product attribute, and therefore a strategic investment chosen to maximize firm value. The second fact is that consumers are often not aware of a firm’s social programs activities (see, for example, Sen and Bhattacharya, 2001; Bhattacharya and Sen, 2004; Pomering and Dolnicar, 2009; Du et al., 2010).

Similar findings were covered by Humphreys, Solomon and Electris (2012) study where they noted that the enterprise under study, Tides, had directed an inside and out investigation of its ventures, to assess the general arrangement between its possessions and mission. Perceiving the chance to build its utilization of impact investments, Tides advanced with new investment strategies. Tides is internally evaluating its investment policies to build the joining of environmental, social and corporate governance (ESG) screens and impact opportunities into how the enterprise uses its benefactor and practitioner assets.

Enterprises are making new products for its benefactors and investors to use capital for social good, from grants or gifts to investments in equity, and all in the middle. A few ranges in which enterprises sees specific chance to grow its impact incorporate more extensive interest in endeavors concentrated on culture and arts, worldwide activities, and affordable real estate with social purpose for philanthropic associations.

While SRI investors are for the most part, mission-driven, they mainly expect that their investments will return huge benefits and are along these lines different from impact first investors who fundamentally try to amplify impact and optionally expect financial returns, assuming any. SRI investors can pick among several SRI common finances and trade exchanged assets. On the other hand, with direction gave by research firms that assemble ESG rankings of organizations, investors can make tweaked arrangement of benefits that may incorporate money, stocks, settled pay, real estate and private equity. Contingent upon the ESG screens that are utilized, the
venture returns crosswise over SRI common assets will change incredibly (Griffin, 2013).

5.3.3. Effect of Financial Returns on Impact Investing at Jamii Bora Bank

Generally, it is a straight forward process to identify financial returns from an investment portfolio. This can be done by assessing the gain or loss on an investment over a specified period, presented as a ratio over the initial investment cost. The process will involve the examination of such elements as how much was invested in the asset, when the investment was made, when the asset matures, for example a fixed term loan, and its current or estimated market value (Neil and Andrea, 2013).

Findings indicated a strong positive correlation between financial returns and impact investment. The $R^2$ indicated that at Jamii Bora Bank, financial returns account for 78% of the changes in impact investment. Findings from the ANOVA statistics further revealed that financial returns have significant effect on impact investment. The regression coefficients also reflected a positive gradient which is an indication that an increase in financial returns results increases the value of impact investment at Jamii Bora Bank.

Impact investing does not have a milestone for financial and non-financial returns, hence the desired return usually varies depending on the investor. One simple representation, noted by Freireich and Fulton (2009), categorizes investors into ‘financial first’ and ‘impact first’ investors, but this relies on what priority they place financial returns or non-financial returns. The level of expected financial resources, however, to be received by the investor at any future point is generally of a lower level as opposed to normal financial investing, though unlike a grant or donation, there is an expectation of at least some amount of the investment being returned.

Indeed, it may well be that no financial disadvantage occurs. Humphrey et al (2012) assets that investment approaches that are geared to organizations that have a wider sense of social responsibility are likely to generate financial returns in line with those of mainly profit making portfolios. Grabenwarter and Liechtenstein (2011) in their study which assessed financial returns versus non-financial returns from efficient impact investments found that there was no negative correlation, implying no trade-off between the achievement of positive social impacts and financial returns whilst
Orlitzky, Schmidt and Rynes (2003) argues that socially responsible investment strategies may even achieve better stock market returns than normal.

Some important aspects are, however, common to both returns. Both sets of investors take an interest in data that can reveal the extent to which there is a change in the issues that they care about. In the case of a financial investor, the main issue is whether their portfolio is worth more money or less money. In the case of an impact investor, the issue in respect of social and environmental return (SER) is whether there are improvements in beneficial outcomes (such as a healthier population), and reductions in negative outcomes (such as use of scarce water supplies) (Neil and Andrea, 2013).

From the findings, the correlation between the independent and dependent variables was positive. It was revealed that operational efficiency, expenditure on social programs and financial returns jointly explain nearly 76% of the variation in Impact investment at Jamii Bora Bank. Moreover, operational efficiency, expenditure on social programs and financial returns have a significant effect on impact investment. From the regression analysis, the regression model was constituted as

\[ Y = 0.93 + 7.12X_1 + 3.21X_2 + 9.19X_3 + E. \]

This means that, if all the independent variables (operational efficiency, expenditure on social programs and financial returns) were held constant, the level of impact investment would rate 0.93. However, when the independent variables are considered, the model indicates that a change in one unit of operational efficiency, expenditure on social programs and financial returns would lead to a positive change in impact investment by 7.12, 3.21 and 9.19 units respectively.

Given that impact investing can take a variety of forms, that range from project-specific to equity-specific investments like Social Impact Bonds, the degree of detail of the evidence required on impact and SER will vary per the investment focus and the investor. For example, an investor that is active on multiple environmental and social fields could calculate the SER that are coupled to a series of aggregate-level investments, balancing example the trade-offs between various non-financial returns (Neil and Andrea, 2013).
5.4. Conclusions

5.4.1. Effect of Operational Efficiency on Impact Investing at Jamii Bora Bank

From the findings, it can be inferred that there is a positive correlation between Impact investment and operational efficiency. Moreover, findings lead to the conclusion that operational efficiency has a positive effect on the level of impact investment at Jamii Bora Bank. Thus, an increase in operational efficiency such as total asset turnover, fixed asset turnover and equity turnover would lead to an increase in impact investment.

5.4.2. Effect of Expenditure on Social Programs on Impact Investing at Jamii Bora Bank

It can be concluded that there is a positive correlation between impact investment and expenditure on social programs. Expenditure on social programs also has a positive effect on the level of impact investment. Thus, an increase in expenditure on social programs would lead to an increase in impact investment at Jamii Bora Bank.

However, while expenditure on social programs increases the level of impact investing, the level of the positive impact is not as high as the impact from operational efficiency and financial returns. As such, though investment banks engagement in social programs is likely to encourage more impact investment, care must be taken to ensure that the expenditure on social programs do not affect profitability of the bank greatly. Otherwise, this may reduce the financial returns and operational efficiency which have a relatively higher positive effect on impact investing, which in turn would lower the level of impact investment.

5.4.3. Effect of Financial Returns on Impact Investing at Jamii Bora Bank

Inference is made that there is a positive correlation between impact investment and financial returns at Jamii Bora Bank. In addition, findings lead to the conclusion that impact investment is positively affected by financial returns. Therefore, an increase in financial returns would lead to an increase in impact investment.

A comparison of the effect of the three independent variables considered (financial returns, operational efficiency or expenditure on social programs) leads to the conclusion that financial returns has the highest positive effect on impact investment followed by operational efficiency and expenditure on social programs respectively.
Moreover, inference can be made that any aspect that lowers the financial returns, operational efficiency or expenditure on social programs is likely to result into a reduction in the value of impact investing. As such, investment banks should be cautious to ensure that their operational efficiency and financial returns are on a continuous increase.

5.5. Recommendations

Based on the study findings, the following are recommended:

5.5.1. Recommendations for Improvement

5.5.1.1. Effect of Operational Efficiency on Impact Investing at Jamii Bora Bank

As the market increases in sophistication, Jamii Bora Bank should be willing to move beyond the idea of an ongoing trade-off between financial and social returns. In some cases, this view may be legitimate; however, in other instances, business models can generate returns on both dimensions. In this regard, there is a wide range of investors that are keen to be involved in impact investing, yet each has its own unique risk/return profile. The real opportunity may be to leverage the capital of investors with varying profiles through collaboration and syndication, particularly for early-stage ventures in new sectors that provide demonstrable and meaningful financial and social outcomes.

When impact information is collected simply and efficiently, it becomes a resource with the potential to improve risk management and financial returns. It is therefore advisable to allocate a percentage of assets for which information about impact will be assessed.

5.5.1.2. Effect of Expenditure on Social Programs on Impact Investing at Jamii Bora Bank

Although it is virtually impossible to subtract out the expenditure on social programs on business performance directly, it is possible to determine its influence on different stakeholders of the company. It is necessary to measure changes in stakeholder satisfaction levels due to investments in social programs.

5.5.1.3. Effect of Financial Returns on Impact Investing at Jamii Bora Bank
The ability to measure and manage added financial return is the primary shared interest of impact investors, but the existing approaches still require more input in this area and development is needed. Methods moving in this direction should be supported in their efforts.

Regardless of the approach, some basic information design suggestions would minimize the time required by readers to understand impact investment reports. That is, they would find it easier to understand the financial returns, operational efficiency and the other aspects that are likely to influence their decisions.

5.5.2. Recommendations for Further Studies

Given the limitations of this study, more studies should be conducted as follows:

A similar study should be conducted on a different investment bank and the results compared to enhance the reliability and generalizability of the conclusions drawn.

Moreover, studies on impact investment should be conducted to examine on the effect of other variables (apart from operational efficiency, expenditure on social programs and financial returns) on impact investing.
REFERENCES


management/impact_investing.pdf


## APPENDICES

### Appendix I: Data on financial elements summary

<table>
<thead>
<tr>
<th>Financial Element</th>
<th>2010 (Figures are in KES '000)</th>
<th>2011 (Figures are in KES '000)</th>
<th>2012 (Figures are in KES '000)</th>
<th>2013 (Figures are in KES '000)</th>
<th>2014 (Figures are in KES '000)</th>
<th>2015 (Figures are in KES '000)</th>
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<tbody>
<tr>
<td>Total Net assets=capital employed</td>
<td>1,008,597</td>
<td>1,057,441</td>
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<td>Total deposits</td>
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<td>3,420,588</td>
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<td>35,590</td>
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<td>CSR Expenditure</td>
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<td>1,290,033</td>
<td>1,311,197</td>
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<td>Operating Expenses to Sales Revenue</td>
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<td>0.57</td>
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<td>Total debt to total assets</td>
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<td>Total asset turnover</td>
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<td>Cash Flow Balance</td>
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<td>Net profit/loss</td>
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<td>88,735</td>
<td>89,964</td>
<td>93,887</td>
<td>19,686</td>
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Source: [http://www.jamiiborabank.co.ke/logs/search?q=financial](http://www.jamiiborabank.co.ke/logs/search?q=financial)
## Appendix II: Data for Quarterly Returns

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Appendix III: Global Allocations per Sector

The following table indicates the allocations per sector in impact investing:

Table 1.1: Global values of AuM per sector in U.S. Dollars.

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<th>Sector</th>
<th>Amount of AuM ($)</th>
<th>Percentage of AuM (%)</th>
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<td>Microfinance</td>
<td>6,400,000,000</td>
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<td>SME finance</td>
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<td>Agriculture</td>
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<td>Cross - Sector</td>
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<td>Environment</td>
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<td>Housing</td>
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<tr>
<td>Education</td>
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<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,881,000,000</strong></td>
<td><strong>100</strong></td>
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