THE LINKAGES BETWEEN ORGANIZATIONAL BEHAVIOR AND CHARACTERISTICS OF DONOR CAPITAL FLOW: THE CASE OF MICROFINANCE CAPITAL FLOW IN SIERRA LEONE

by

David A. Bell

Submitted to the Graduate Faculty of

Graduate School of Public and International Affairs in partial fulfillment

of the requirements for the degree of

Doctor of Philosophy

University of Pittsburgh

2011

UNIVERSITY OF PITTSBURGH

Graduate School of Public and International Affairs

This dissertation was presented

by

David A. Bell

It was defended on

September 19, 2011

and approved by

Leon Haley, Emeritus Professor, Graduate School of Public and International Affairs

Kevin Kearns, Professor, Graduate School of Public and International Affairs

Maureen O. Vanterpool, Professor, Geneva College

Rodney D. Martin, Partner, Warner Norcross & Judd

Dissertation Chair: Harvey White, Associate Professor, Graduate School of Public and International Affairs

THE LINKAGES BETWEEN ORGANIZATIONAL BEHAVIOR AND CHARACTERISTICS OF DONOR CAPITAL FLOW: THE CASE OF MICROFINANCE CAPITAL FLOW IN SIERRA LEONE

David A. Bell

University of Pittsburgh, 2011

Capital, in the form of foreign aid, is a very substantial revenue form for many developing nations. Foreign aid is integral to strategies of nations working to relieve human suffering and achieve a secure, stable world. One of the greatest impediments to foreign aid effectiveness is unpredictability, or capital volatility. At a macro level, capital volatility's impact in developing nations is multiples of that in the industrialized world. Capital volatility has been shown to substantially impact social welfare costs and both the efficiency and effectiveness of aid. Thus, volatility reduces the value of foreign aid.

This investigation explored linkages between organizational behavior and capital volatility by analyzing the promises and disbursement conditions agreed to by donors and microfinance recipient organizations: capital investment deals. Capital volatility is defined as the difference between commitments and disbursements. The examination utilized a case study of a donor collaborative project—Microfinance Institution Technical Assistance Facility in Sierra Leone—the first of over 20 created to develop an inclusive, pro-poor financial sector by assisting microfinance institutions. Disbursement conditions and bureaucracy alone are not sufficient explanations of capital volatility. A deeper analysis revealed the role of each party's perceptions and expectations in their respective understandings of a performance based agreement that defines the deal as a relationship, not just a legal document. These understandings are the bases of each party's decisions and actions, often with ethical implications and consequences. This project has produced a theoretical lens – the Capitalflow Bureaucratic Triad - to understand this complexity and plan future volatility reducing strategies.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

AROA	Adjusted rate return on assets
BRAC	Bangladesh Rehabilitation Assistance Committee
CGAP	Consultative Group to Assist the Poor
DAC	Development Assistance Committee
FDI	Foreign Direct Investment
FSS	Financial Self-Sustainability
GDP	Gross Domestic Product
GNP	Gross National Product
IAD	Institutional Analysis and Development Framework
IC	Investment Committee
IMF	International Monetary Fund
INGO	International Nongovernmental Organization
KfW	Kreditanstalt fur Wiederaufbau (German Development Bank)
LAPO	Lift Above Poverty Organization (MFI)
LDC	Least Developed Countries
MFI	Microfinance Institution
MITAF	Microfinance Investment and Technical Assistance Facility
NGO	Nongovernmental Organization
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OSS	Operating Self-Sustainability
PaR	Portfolio-at-Risk
PBA	Performance Based Agreement
PSD	Programme Support Document (MITAF UNDP Project Document)
RTA	Resident technical assistance

SDP	Sector Development Programme
SSA	Sub-Saharan Africa
TA	Technical assistance
TSP	Technical service provider
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UNICF	United Nations Childrens Fund
WO	Write-offs

ACKNOWLEDGEMENTS AND DEDICATION

I would like to thank my chairman Prof. Harvey White for his patience, guidance, and opening his world to me. From West Africa to China and Saudi Arabia Harvey has allowed me to learn by granting access to people and events that have impacted me tremendously. Furthermore, he allowed incredible freedom to explore non-traditional approaches to writing the dissertation. In the long-run, it was a lot of work to produce a traditionally formatted output, but the learning was rich and deep. Thank you, my friend.

I would also like to thank Emeritus Prof. Leon Haley. From the beginning of my graduate work through application to, and completion of, the Ph.D. program Dr. Haley supported me, every step of the way. In an elegant, gentlemanly manner he has epitomized the consummate scholar and mentor. He pushed and challenged as much as encouraged, and promised to stay with me until I was done; he stood by his word.

A special thank you also goes to my friend and colleague, Prof. Kevin Kearns. As director of the Johnson Institute for Responsible Leadership at GSPIA he provided me diverse experiences in research and graduate school administration. More importantly, through lunches, coffees, ball games, long drives, “jousting discussions,” and invitations to exclusive sessions with public organization leaders from around the world Kevin was one of the most influential scholars in my life. I never enrolled in a course he taught, but benefited from personal tutelage for which many of his students could only wish.

This dissertation benefited greatly from the work of Prof. Maureen Vanterpool and my long-time colleague Rodney Martin, Esq. Their numerous comments and patience in reading and re-reading this dissertation directly shaped this final product and are greatly appreciated. Thank you Maureen and Rodney. Also, my friend and colleague, Mary Larzelere provided invaluable assistance by investing hours in transcribing interviews. Plus, Jacki Chura-Beaver was a great help with editing (any remaining errors are owned by yours truly). Thank you Mary and Jacki.

I also benefited from many friends. First, my cohort provided tremendous support: Colin Clarke, Brandon Boylan, Idalia “Ida” Bastieans, Monica “Moni” Jacobs, Peace “Queen” Medie, SungGeun “Simon” Kim, Bok-gyo “Jonathan” Jeong, Keng-Hao Hsu, Evgeny Postnikov, and Muhammad Khurram Butt. Also, my “family” in Sierra Leone made this whole thing possible, Francis Lavally and his wife Angela along with Philip Kamanda from Njala University. Kazi Faisal Bin Seraj and the research unit team in BRAC-Sierra Leone assisted greatly. Faisal provided me a wonderful opportunity to have an in-depth experience for approximately three months, which spawned the analysis and findings of this dissertation.

Foremost, I am eternally grateful to the remarkable men and women at the donors, apex, and MFIs associated with MITAF. Their kindness, generosity, and warmth were overwhelming. The access they graciously allowed will no doubt make this research experience the envy of many investigating the weighty matters addressed in this work.

It is my honor to share this degree with another colleague. Although only my name will show on the diploma it is as much Sheila Ann Bell’s, my wife, as it is mine. She invested as much blood, time, and money as I and is every bit as deserving. Next to her is a cast of “also rans” that helped from reading, household chores and listening to staying out of the way (smile): David Allen, Marja, Jocelyn and Ian. My precious children.

Finally, I owe it all to God. On numerous occasions I have described my Ph.D. adventure as a gift. I love learning and teaching. If you could hear the unique story of twists and turns on my remarkable learning and teaching adventure you would be hard pressed to not say it was a God-ordained miracle. I say it freely, without hesitation or reservation, and am so grateful to the Lord for this remarkable, remarkable adventure.

To my Sheila and the incredible people that participated in the MITAF-Sierra Leone project.

1.0 CONTEXT, BACKGROUND, RESEARCH PROBLEM

1.1 INTRODUCTION

This study investigated relationships between organizational behavior and characteristics of capital flow. Organizations in the study collaborated to provide the poor access to financial services via microfinance organizations. The unit of analysis was capital investment deals consummated in a United Nations Capital Development Fund (UNCDF) collaborative financial sector project, Microfinance Investment and Technical Assistance Facility (MITAF), the first of 22 such projects implemented within seven years. Research was conducted in Sierra Leone, a post-conflict fragile state in Sub-Saharan Africa and a region of the world with formidable challenges to development efforts. The UNCDF project served as a case study framed by the Institutional Analysis and Development (IAD) framework of Nobel Laureate Elinor Ostrom. Grounded theory in the tradition of Anselm Strauss and Juliet Corbin was employed to analyze behavior and capital flow data.

Archival and interview data were used to identify linkages between organizational actions and capital flow volatility. Archival data was used to collect capital disbursement information, ascertain espoused behavior, and observe actual behavior linked with capital disbursement. Focused interviews were used to non-intrusively elicit beliefs, perceptions, and actors' values as they pertain to linkages between organizational behavior and capital volatility. Central concepts accounting for the most variance in the linkages emerged from data through grounded theory analytic processes. The resulting substantive theory provides a lens to make sense of the complexity and interconnectedness between organizational behavior and capital flow volatility. This increased knowledge can aid efforts to minimize capital devaluing impacts of volatility.

Most available research on capital volatility focuses on macro level activity, especially the amount of capital, between donor institutions and developing nations. Statistical procedures were most often used to develop explanations for volatility. Project and budget support to governments is explored in this body of research to provide explanations for volatility, such as disbursement conditions and accountability, government institutional strength, and donor priority changes. However, there is not a deep, rich description and explanation of linkages between organizational behavior and capital flow volatility. This investigation aims to addresses this void in the research by addressing the following questions:

- How did different actors account for variances in capital disbursements?
- What responses did different actors recommend to reduce variances?
- How were organizational behaviors linked to volatility in disbursements?

The result is a substantive theory that accounts for the phenomena of variability in capital flows and linkages with actors' behavior: Capitalflow Bureaucratic Triad (CBT).

CBT theory serves as a lens to identify and understand the interconnectedness and complexity associated with capital investments. The theory states: *Value of capital is affected by linkages between organizational behavior and capital volatility. Capital flow volatility is determined by the interactions of three properties of bureaucracy: collaboration; accountability; and effectiveness, efficiency, and responsiveness (impact). Capital value is a function of the level of volatility and microfinance institution (MFI) condition at disbursement.* MITAF participants acted bureaucratically to create, and in response to, capital flow; thereby determining the amount of delay and MFI condition at disbursement. CBT theory helps explain the affect behavior-volatility linkages have on capital flow, and assists predicting behavior and volatility in certain contexts. Moreover, insights from this investigation can add to the bodies of knowledge on organizational theory and capital volatility and predictability.[1] They can also contribute to academic work, inform efforts developing pro-poor financial sectors supporting entrepreneurship and spawn human development. The insights are particularly relevant in post-conflict settings and developing nations seeking to constrain divisions and tensions associated with triggering conflict (Momo, Costa, Letho, Manzi, & Rebakis, 2011).

[1] Volatility and predictability are defined differently in the literature. However, as reflected in the literature review, both include the property of time (Celasun & Walliser, 2008). Time was central in this investigation of capital flow. In this investigation, the term "volatility" is used to explain variability in disbursement timing, primarily because the level/amount of disbursements did not substantially vary between expected and actual.

1.2 CONTEXT OF HUMAN DEVELOPMENT AND ORGANIZATIONAL PERFORMANCE

Human development is deemed vital to global organization performance in the 21st century. It has been accepted as one measure of organizational performance, and has long been considered an important measure in development policy and practice. The seminal work of Seers (1972) emphasizes the importance of development efforts in realizing “the potential of human personality” (p. 21). As such, global organization performance in the 21st century will be affected by the degree multicultural managerial staff can be assembled in a competitive global hiring context (Harvey, Novicevic, & Kiessling, 2002).

Human development is also vital to assembling effective multicultural teams. Global organizations need this diversity to seize opportunities and attack global problems. Going it alone is less frequently an option: whether an entrepreneurial venture in a developing country, a United States human services nonprofit organization, or a fragile nation-state government. Today’s opportunities and problems place demands on organizations beyond their capacity to respond alone. Karen Cook, Russell Hardin and Margaret Levi (2005) draw on theoretical and empirical research to examine factors essential to the creation and sustainment of cooperation in numerous contexts. They argue that actors who mutually benefit from exchange and cooperation work to structure interactions with high levels of cooperation to achieve improved performance outcomes. Cooperation within and between global public organizations is reflected in assembling multicultural teams and is repeatedly affirmed as an effective organizational strategy.

Cooperation in multicultural teams is central to public organizations, such as government and nongovernmental organizations (NGOs), facing human development challenges as they respond to some of the most difficult problems in our world. One formulation of these problems is reflected in the United Nations Millennium Declaration, expressed through eight goals.[2] The first goal is eradication of extreme poverty and hunger (Perkins, Raddelet, & Lindauer, 2006).

---

[2] The United Nations Millennium Declaration is a commitment to make development a reality for everyone by 2015 and is expressed in eight goals, including eradicating extreme poverty and hunger (Perkins, Raddelet, & Lindauer, 2006).

The behavior of public organizations in attacking poverty, expressed as strategies and tactics, are important considerations. Strategies and tactics employed by public organizations in responding to difficult problems, such as alleviating poverty, include structuring effective collaborations.

1.3 RESEARCH PROBLEM

In 1976 Milton Friedman exclaimed in his address upon receiving the Nobel Prize in Economics that, “The poor stay poor not because they are lazy, but because they have no access to capital.” Sir Fazel Hasan Abed, founder and chairman of the Bangladesh Rehabilitation Assistance Committee (BRAC),[3] characterizes Friedman’s connection as involving capital and personal empowerment: “The poor remain poor because they are powerless. Once empowered the poor are able to change their lives” (CGAP, 2006, p. vii). In this investigation the problem is best described by beginning with Alex Counts, president of Grameen Foundation USA. He states that, “there is no lack of capital…[but instead] the lack is delivery channels for capital” (Counts, 2010). The problem in this investigation is embedded in a need for capital investment delivery mechanisms.

1.3.1 The problem illustrated

To illuminate Alex’s point, consider entrepreneurs in least developed countries (LDCs). Jacqueline Novogratz (2009) recounted working on an entrepreneurial bakery venture with a group of poor, single Rwandan mothers. She was introduced to the project while serving as a consultant to Duterimbere, a budding new microcredit facility funded by the United Nations Children’s Fund. Novogratz assisted in implementing systems and procedures to improve product quality and account for inventory and sales. Perhaps more importantly, she engaged

[3] BRAC’s relief work evolved to development initiatives. The organization changed its name to Bangladesh *Rural* Advancement Committee. Later, in the 1990s, BRAC was deeply involved in urban poverty reduction. The acronym, BRAC, now represents a motto: Building Resources Across Communities. Microfinance is central to BRAC’s development model.

the women in a business model where they saw their effort correlating with income, as opposed to charitable donations, to sustain livelihoods. Novogratz (2009) writes,

> For the first time, their [the bakery women's] incomes allowed them to decide when to say yes and when to say no. Money is freedom and confidence and choice. And choice is dignity. The solidarity of the bakery also gave them a sense of belonging that made them even stronger (p. 78).

Entrepreneurship is about more than economic development, it is also about *human* development since it provides individuals the opportunity to guide their own destinies through work. Public organization efforts to alleviate poverty, such as supporting an entrepreneurial bakery venture, are illustrated in global multicultural cooperation activities of a microcredit capital delivery mechanism.

Entrepreneurship is celebrated both for its innovation in responding to needs, and as a valuable mechanism to advance national development agendas. Entrepreneurship is a cross-cutting field of study that has been used to explain several societal phenomena in various disciplines of social science (Low & MacMillan, 1988). Development economists contend that entrepreneurship provides comparative advantage at both mirco and macro levels. Individual entrepreneurship is reflected by employable skills or business ventures. National entrepreneurship results are manifested in exportable products. Political scientists frequently seek to understand individual entrepreneur's political behavior in explaining a stable political system, and institutional structures that support or hinder the emergence of entrepreneurial responses to a nation's needs (e.g., poverty alleviation, education, individual-choice capacity, and health). Many political scientists favor approaches that espouse institutional support and promotion of an entrepreneurial class. Other social scientists have found linkages between changes in society and the organizational structures associated with entrepreneurship. Their research reports that entrepreneurial class organization is driven by such factors as cohesion and feelings of aimlessness—all of which produce important consequences for social change processes (Martinussen, 1997). A common question is how to generate sufficient financial capital to promote entrepreneurial innovation that permeates all societal levels. Microfinance can help provide needed financial capital. As a banking intermediary, it serves as a capital delivery mechanism to empower entrepreneurs and households in the quest for poverty alleviation.

Capital needs of entrepreneurs and households in LDCs were addressed by the United Nations (UN). The UN undertook a project to identify capital access barriers. The project included multi-stakeholder consultations during 2004 and 2005, as well as input from a 2005 global e-conference, material from experts via an on-line questionnaire, and in-depth interviews.

One output was a published report by Imboden and her colleagues, "Building Inclusive Financial Sectors for Development" ("Blue Book"). An important finding was that, "A major concern of MFIs [microfinance institutions] is the ability to fund the growth of their loan portfolios…" (Imboden, Clark, & Herman, 2006, p. 76). This concern is embedded in another important finding contained in the report: "Financial sector strength is fundamental for linkages and intermediation across the financial sector…and for the funding and capitalization of the full range of financial institutions" (p. 77). Factors inhibiting capital delivery mechanisms, such as constrained funding of MFI loan portfolio growth and financial sector weakness, are important considerations in efforts to provide poor people access to financial services.

1.3.2 The problem where market mechanisms are inadequate

Financial sector strength in LDCs is affected by environmental factors. Many LDCs are conflict environments with fragile state governments.[4] MFIs in a financial sector affected by conflict and state fragility find it difficult to access capital market mechanisms (Sen, 1999). Both foreign portfolio and direct investment (FDI),[5] in general, respond to economic incentives such as market size. Customers and capital investors perceive high risks are associated with doing business in settings that can be destroyed overnight by on-going or resumed conflict (Imboden et al., 2006). Scholars have researched these concerns and conclude that they directly impact access to capital.

---

[4] *Conflict* is understood by drawing on the frequently cited work of Lotta Harbom and Peter Wallensteem (2005), which utilizes the definition of armed conflict from the Uppsala Conflict Data Program. That definition is: "[A] contested incompatibility that concerns governments or territory or both, where the use of armed force between two parties results in at least 25 battle-related deaths. Of these two parties, at least one has to be the government of a state" (p. 634). The term *fragile state* does not have a universal definition, nor is the status generally seen as a dichotomy. The Organization for Economic Cooperation and Development used the phrase "poor performance" to address states lacking the capacity to provide a political space or deliver public services, as well as those countries that have the capacity, but lack the commitment to do so.

[5] Foreign portfolio investment involves foreigners purchasing shares of stock in domestic companies. Such investments are often central to discussions of capital volatility; however, private capital flows are not substantial in much of Sub-Saharan Africa, primarily due to underdeveloped capital market mechanisms. Foreign direct investment (FDI) involves a company forming or expanding a subsidiary in another country. FDI is often the result of multinational firms making decisions regarding market location, internalization of subsidiary transactions, and vertical integration of outputs and inputs (see Honohan & Beck, 2007, p. 123; Krugman & Obstfeld, 2005, pp. 157, 160-163, 613).

Researchers have examined capital flow by focusing on factors such as capital market characteristics, access to external financing, rule-of-law, and investor incentives. Research has found a positive relationship between government infrastructure and FDI (Globerman & Shapiro, 2002). This relationship was explored deeper by an often cited earlier work of Rafael La Porta and his colleagues from Harvard and University of Chicago (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). These researchers reported on variances among nations in breadth and depth of capital markets, and company access to external financing. They found through a meta-analysis investigation that a common finding is investors having legal protection from management and controlling shareholders aids understanding variances. La Porta et al conclude that, beyond a broad definition of government infrastructure, placing a premium on external investors' rights is required to reap benefits of developed capital markets. On the other hand, when rule-of-law is separated out (i.e., controlled), there are empirical findings that FDI goes to richer nations (Alesina & Dollar, 2000). In other words, when fragile state factors (e.g., legal infrastructure) are considered the same among nations, the relationship between investment in a nation and its legal infrastructure is subordinate to other investor incentives.

While Western economies often obtain investment capital through markets, post-conflict fragile states lack the capacity and institutional structure to support healthy markets. Challenges to viable capital delivery mechanisms (e.g., capital markets) are exacerbated by the absence of both institutional infrastructure (e.g., institutionalized formal rules) for a viable capital market, and sufficient financial incentives to attract private capital (Alesina & Dollar, 2000). In effect, these settings are dependent on official development assistance, or foreign aid, as a primary source of capital. This is evident in development financial institutions[6] accounting for over 50% of the more than $4 billion in foreign aid microfinance capital investment in 2007 (Cull, Demirguc-Kunt, & Morduch, 2008). Foreign aid is a vital capital source for LDCs, including capital delivery mechanisms for microfinance instruments engaged to battle poverty.

Foreign aid takes the form of money (e.g., grants, subsidized loans), commodities, and technical assistance (Perkins et al., 2006; Rapley, 2007). The Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) is the official source of information on foreign aid. According to DAC, foreign aid (concessional assistance) meets two criteria: the main goal is the promotion of economic development and welfare; and aid is in the form of a grant or subsidized loan. Most foreign aid has been from one

[6] Development financial institutions are private sector development mechanism for government development initiatives (Reille & Forster, 2008).

country to another (bilateral assistance). The largest category of bilateral aid is government assistance to low and middle income nations. Donor countries also provide aid through multilateral mechanisms; institutions such as the International Monetary Fund (IMF), United Nations Development Programme (UNDP), and UNCDF pool resources from numerous donors.

1.3.3 The problem where organizational responses are used

One response to the need for capital delivery channels is organizational rather than market institutions. UNCDF implemented a new strategy in 2003 that responded to the need for capital delivery mechanisms: sector development programme (SDP). SDP had three key features: financial sector assessment, nationally owned vision (e.g., strategy and action plans for inclusive financial sectors), and capital investments in MFIs. As a capital delivery mechanism, SDPs were designed to ultimately provide poor people access to financial services, including capital in the form of credit.

SDPs are an organizational response to the LDC need for capital investment mechanisms when the market did not provide an adequate response. A substantial amount of economic activity occurs in organizations rather than markets. Nobel Laureate Herbert Simon (1996) notes that economists employ externalities and uncertainty when explaining organization advantages over markets for much economic activity. The more important reason, according to Simon, is actors provide additional effort to benefit collaboration because they benefit more from collaborative learning than by incurring costs of learning independently (e.g., reduce transaction costs).

SDPs are collaborative capital delivery mechanisms that address a major constraint to financial sector accessibility to the poor. Yet, SDPs have a characteristic found in both capital markets and foreign aid: volatility. Capital flow volatility, as will be explained in the next chapter, involves disbursement variances in the amount and timing of capital, including foreign aid. This aspect of the problem—capital delivery mechanisms experiencing capital flow volatility—is a serious concern because volatility has demonstrated dramatic devaluing effects on capital.

The literature offers several reasons for the importance of understanding volatile properties of capital flow to LDC economies, and to MFIs. First, aid volatility can indirectly offset some direct beneficial aid effects, such as MFI loans strengthening poverty alleviating entrepreneurial ventures. Second, matters relating to aid volatility are receiving increased attention due to their impact on achieving the Millennium Development Goals (MDGs).[7] The number and strength of external shocks (e.g., GDP effect) on LDCs tend be larger than those experienced by industrialized nations (Pallage & Robe, 2003). Third is the large amount of aid provided to LDCs and MFIs. Finally, uncertainty about aid flows has a detrimental effect on economic growth; volatility of aid is an aid value-determiner (Bulir & Hamann, 2003).

1.3.4 The problem refined and its effects

Capital flow characteristics are central to macro and micro development efforts described above. Capital flows at the macro level normally coalesce with business cycles and economic growth or contraction. Economists assess that business cycle fluctuations impact social welfare costs (measured by change in consumption) in developing and industrial nations (Birdsall, 2004). In addition, economic crises over the last twenty years have demonstrated that business cycles are closely correlated with short-term capital flows. Instability in these capital flows negatively affects the growth of macro economies. For example, capital quickly leaving a country in large amounts can be devastating. Beyond economic slow-down, the risk of capital instability is an impediment to investment (Joseph Stiglitz, 2000). At the micro level, capital instability affects livelihoods, nutrition, education, and health. Research provides valuable insights into the challenges capital flow volatility can present in providing effective capital delivery mechanisms.

Stephane Pallage and Michel Robe (2003) studied the impact of macroeconomic cycles on African and industrialized nations by measuring the consumption welfare cost of fluctuations. The 33 African countries analyzed included only those that had data for 22 consecutive years and did not experience war during the period. Through the use of various statistical models the study found welfare costs of cycles to African countries are large multiples of the cost to the United States. For example, U. S. consumption volatility in one model was 1.36%, but the median was 5.11% in Africa. Moreover, the median welfare cost in African countries is 14 times the U.S. level. The researchers noted that “What is striking…[is] the welfare cost of fluctuation

[7] See the often cited authors, Ales Bulir and Javier Hamann (2008, p. 2049), and Ellerman (2007) for a discussion of the scarcity of research on aid volatility.

in low-income countries remains a very large multiple of its U.S. counterpart" (p. 690). Moreover, welfare gains occurring as a result of eliminating volatility are so substantial they could add 1% to annual growth indefinitely.

Closely related to macroeconomic cycles, capital flow volatility has received considerable attention, especially at the macro level. There is extensive research on the economic effects of capital flow, particularly following financial liberalization (Celasun & Walliser, 2008; Honohan & Beck, 2007). For example, one empirical study (Demir, 2009) looked at Mexico and Turkey to understand the effect of internal funds on fixed investments when credit is constrained (i.e. capital flow constrained). A central discussion in the study is the relationship of financial liberalization, imperfect capital markets, and capital flow volatility. Also, the investigation demonstrates capital flow volatility increased after liberalization, and reductions in growth and trade are significantly related to capital volatility. These findings are of particular interest because capital market mechanisms, influenced by financial liberalization, are generally viewed as the inevitable source of capital for a sustainable microfinance sector.

At the micro level stable capital flows enable effective strategic planning and budgeting. This includes the dissemination of information used in planning by individuals, firms, and governments. Planning guides and promotes strategic activity. Conversely, micro-level capital instability constrains this type of activity, as demonstrated by the empirical record of credit contractions (Miller et al., 2000).

A by-product of credit contractions is capital volatility, which can create economic shocks with negative impacts on poor people. For example, LDC public organizations would be unable to pay workers and delay human capital investments. Also, credit contractions central to the Great Recession had far reaching effects. The World Bank estimates 100 million more people will be impoverished as a result of the 2007-2008 Great Recession. This figure does not account for approximately 130 million directly affected by 2007 food price increases (de Catheu, Kotoglou, Malhotra, Jacob, & Wee, 2008). Researchers have found restricted access to credit, savings instruments, and insurance products constrain the poor's ability to exploit new farming opportunities, educational and skill development, medical care, and entrepreneurial initiatives (Rodrik, 2000; Spencer & Wood, 2005). While microfinance institutions are put forth as a mechanism to promote LDC human development, their effectiveness depends on reliable capital flow used to provide financial services.

Foreign aid capital flow in post-conflict fragile state settings is particularly alarming. Post-conflict fragile states experience greater volatility in official development assistance (i.e., foreign aid) in comparison to other developing nations. Several scholars have studied this volatility. One theoretical study, exploring effects of business cycle productivity and high aid volatility on welfare costs to consumption, found aid volatility costs far exceeds business cycles (Arellano, Bulir, Lane, & Lipschitz, 2009). As de Catheu and her colleagues contend, it is imperative for these nations to receive sustained foreign aid (de Catheu et al., 2008). For instance, approximately one-third of armed conflicts that reignite do so within ten years of declaring peace. A key risk factor for reigniting armed conflict is the lack of economic opportunities. Research has found that economic opportunity—defined as per capita income, per capita income growth rate, population growth, and schooling of young men—significantly effects the risk of resuming conflict (Bigombe, Collier, & Sambanis, 2000). With this understanding, it is sobering to note that 50% of 2007 foreign aid benefited only five of 48 post-conflict fragile states (de Catheu et al., 2008). This investigation assumes, based on the relevant literature and archival evidence, development and aid are vital to maintaining peace during this critical ten year window. Moreover, of the world's low income nations, fragile states are falling behind in efforts to achieve the MDGs, including a reduction of people living in extreme poverty. Slow progress toward achieving the MDGs contributes to spillover effects felt throughout the global community, such as volatility, illicit activities, war, and public health concerns. Given the tremendous amount of aid capital investment, stakeholders have begun to request explanations for shortfalls in MDG achievement. The explanation, in part, will be the devaluing effect experienced due to aid capital volatility.

In summary, the problem examined in this investigation is the insufficient understanding of volatility in capital flow from delivery mechanisms to MFIs used to provide financial services to poor people, including loan capital. Capital flow volatility involves variances in the amount and timing of capital. Effectively addressing this problem requires first ascertaining how others have attacked the problem. This is discussed in the following chapter. However, a study involving microfinance institutions and capital flow processes necessitates a basic overview of the role and development of money and banking. The overview in the following section focuses on daily living and institutional operations. The point of departure is individuals engaging in financial exchange transactions. Increasingly without regard to what nation a person calls home, or an economy's sophistication level, this basic starting point undergirds a financial framework within which services and institutions can be placed. The next section provides a primer on the origins, structure, and basic functions of the financial services sector, money, and banking. Microfinance entities are institutions that facilitate poor people engaging in financial transactions by providing services otherwise available to them. As the overview makes clear, the behavior shaping power of promises (credible commitments) is foundational to financial transactions, especially extending credit. Promises are central to a healthy, robust financial services sector.

1.4 MICROFINANCE *IS* BANKING

History records how people and households in many traditional societies lived self-sufficiently. Food, clothing, housing, and security were provided at the household level. Envision a family with no trade or commerce. Then enter people in communities who have discovered that not all people perform all tasks equally well, and that all can improve their state by focusing more effort on certain competencies. Small communities of individuals and households exchanging goods soon give way to more people engaging in exchange transactions that find one-on-one bartering to be highly inefficient. The money artifact served to address some weaknesses of bartering.

George Kaufman (1977) records exchange transaction history, describing the role and function of money and banking. He explains money's value is not intrinsic, but its utility is in facilitating exchange. It allows the value of each good to be specified only in money terms and not relative values in the trading transaction. Grain, cattle, salt, shells, tobacco, and various metals were used in societies of old as money. Metal coins functioned as the primary form through most of recorded history. Paper notes and currency, followed later by checks, were used to facilitate more efficient exchange transactions. As will be explained, banking was central to facilitating efficient exchange transactions. The Commercial Revolution of the 17th century and the Industrial Revolution of the 18th century proved transporting, storing, and securing metal coins for monetary use was increasingly onerous.

Money and credit are different, but related. For the sake of simplicity, money is *owned*, credit is *owed*; money is an *asset*, credit is a *liability*. To illustrate the money-credit distinction and financial services people use, Kaufman classifies people as *savers* or *borrowers*. Savers choose to hold savings as cash, use it to reduce debt, or "rent out" the "purchasing power" of savings to borrowers (Kaufman, 1977, pp. 25, 50). Borrowers create financial claims that can be thought of as a *note* (i.e., evidence of borrowing and debt). Borrowers provide *notes* to savers and savers provide *money* to borrowers. Borrowers pay-off the note through the payment of rent (as interest), and the payment of principle (the notes' original face-amount). Of course, in practice people are often not one or the other but both, functioning in different roles based on the transaction's nature (Kaufman, 1977). Servicing these different roles in the transaction is the function of banking, or financial intermediaries.

Kaufman explains that exchange transactions between borrowers and savers occur through direct or intermediary markets. *Investment banking* involves institutions that bring borrowers and savers together in direct (or private) capital markets. The typical banking actors here are brokers and dealers. Brokers bring parties together to facilitate transactions and receive remuneration in the form of commission. Dealers, on the other hand, purchase notes from borrowers and then sell notes to savers. Dealers are compensated on the difference between the amount they *pay* for notes and the sales price. This difference emerges over some period of time, results from numerous factors, and is not always advantageous to dealers. In the capital market transaction, savers own the notes of borrowers as an asset, similar to currency.

In contrast to capital market activity, as Kaufman explains, intermediary market activity (e.g., banking) involves borrowing through instruments that can be viewed as *secondary notes*. Savers obtain (purchase) *secondary notes* from these intermediary market institutions. In turn, these institutions purchase *notes* from borrowers. Intermediary institutions facilitate two exchange transactions that occur practically simultaneously. Money *flows* from *savers* to *intermediary institutions* and then money *flows* to the *borrowers*.

Dorothy Nichols (1975) describes the power of the intermediary market to create rapid development, which became clear many centuries ago. Intermediary institutions, engaged in activities commonly referred to as *commercial banking,* provided safe storage of precious metals, such as gold and coins. Two realities became vivid in terms of the money-credit distinction and financial services people use. First, receipts (secondary notes) people were given by commercial bankers for depositing their precious metals were being used to facilitate exchange transactions. Receipts functioned as currency because holders believed they could go to commercial bankers and exchange the receipt for precious metals. That is, there was a credible commitment that the receipt was backed by the bank. Second, commercial bankers learned that *notes* could be purchased from borrowers with *receipts,* rather than actual precious metals. In other words, bankers could make loans (purchase notes) without actually giving the borrower precious metals from storage, using receipts instead. Not only did *receipts* have transaction value, but more *receipts* could be issued than actual precious metal stores in the bank. This was because only a portion of receipts representing all precious metals at the bank would be presented to the bank for payment in the form of precious metals at any given time.

The result from the *notes-receipts* transaction relationship is understood as the money multiplier effect of fractional reserve banking. Multiplication of money results in an abundance of resources for development based on *promises* (i.e., credible commitments) rather than hard assets (e.g., precious metals). *The ability to trust and act based on promises became integral to economic systems*. Commercial banks are only one form of financial intermediary. Another financial intermediary form is designed to operate in both direct and intermediary markets.

Finance companies are a form of financial intermediary operating in direct and intermediary markets simultaneously. Kaufman explains these institutions raise capital by *selling* short and long term securities in direct financial markets. Securities function similar to the *notes* referred to previously. These securities are obligations and borrowings of finance companies. Finance companies are normally understood in terms of customer segments served: businesses or households. Household institutions, or personal finance companies, operate as intermediaries by financing small purchases and providing money directly to borrowers, who are typically higher risk customers. The finance company intermediary is most like the microfinance institutions described in this investigation. The history of the *small loan company* goes back many years and shares the focus of serving a population described in a manner very similar to the population served by modern day microfinance institutions (MFIs).

An Ireland lending mechanism illustrates both the historic use of credit in development, and similarities in target populations with modern day MFIs. W. L. Shuldham (1903) referenced lender performance data in 1838 when arguing to the Duke of Wellington, that the "Loan-Fund system" is clearly "capable of effecting great and lasting benefits…in the amelioration of the condition of the working classes of the community," and that such a practice is "very ancient" (pp. 5, 14, 15). The remarks to the Duke described the purpose, function, and challenges of providing pro-poor financial services in Ireland. Similar to modern day MFIs, the loan-fund system was discussed as a mechanism "by which the working classes of the community can be raised in their social and moral character" (p. 4). The mechanism was also described as benefiting entrepreneurs and farmers. This demonstrates that the use of financial services as a human development instrument has been valued for hundreds of years.

Early mechanisms in Ireland created lending products available to the poor. These products focused on pledged loans in the form of pawning, where borrowers lost use of the asset (Shuldham, 1903). Shuldham distinguished pledged loans from loan-fund contracts provided as character loans. The loan-fund product seems to have required a co-signer (e.g., sponsor). According to Shuldham, this feature is associated not only with the social pressure to repay (to avoid humiliation), but also "a friendly intercourse is generally the consequence" (p.

10). The virtues of character loans were extolled: "[such a person] feels himself rather raised amongst his class, is naturally stimulated to exertion to uphold that character…and prides himself on his power of thus borrowing" (p. 5). Shuldham posits that the loan-fund system has the propensity to address character flaws, "Where the laws are almost powerless it is often found that the dread of '*a bad name at the Loan Board*' has proved effectual to check both rioter and drunkard" (pp. 7, 9). He explicitly cautioned against viewing loan-funds as a panacea for addressing all the ills of the working classes, but a device to be given careful consideration. More than just a tool of economic development, relationships and power that emerged from access to Ireland loan-fund financial services were believed to benefit human development.

In their book on the concepts driving the modern microfinance movement, Beatriz Armendariz de Aghion and Jonathan Morduch (2005) draw on what they argue is the best known story of microfinance to discuss its beginnings. There are similarities between key features of this story and the loan-fund program in Ireland. The authors explain how in 1976 Professor Muhammad Yunus began experimenting with making loans to the poor. Early results indicated that borrowers were being helped a great deal and repaying predictably without providing collateral. Yunus (1999), founder of Grameen Bank, focused on the "landless poor," and those skilled in weaving, husking rice paddies, cattle, and rickshawing (pp. 42, 140).

An innovation at Grameen Bank that facilitated rapid growth seems to be a variation of the Ireland loan-fund program's *sponsor* co-signer feature. Rather than a single *sponsor* with greater financial strength, Yunus employed a "group lending" contract that provided for the poor to, in-effect, co-sign for each other (Armendariz de Aghion & Morduch, 2005, p. 12). Another similarity of the microfinance movement with the pro-poor lending of Ireland is social benefits. Yunus (1999) argues there are powerful "socioeconomic implications of credit" that likens the "silence and indifference" financial institutions showed the poor to "financial apartheid" (p. 150). He explains that economically empowered poor are determined fighters of population problems, illiteracy, and health issues.

Another distinctive microfinance feature empowering poor in LCDs is a specific target market. Prior to Yunus and Grameen Bank, BRAC pioneered the idea of targeting women. Also, BRAC took a client relations approach to microfinance that focused on customers' businesses as much as loan terms and performance. BRAC's experience also supports the view that benefits of microfinance go deeper than economics to include health, education, and family planning (Smillie, 2009) Contemporary microfinance has significantly expanded the portfolio of loan products available (e.g., individual loans) and is impacting the institutions' credibility, earning them a seat at the table where development agendas are shaped and strategies designed. Collected microfinance data reflect a capital delivery mechanism experiencing rapid growth, including substantial outreach to the poor. Table 1 provides some key indicators of growth and impact. *If* it is assumed that each family has five people, *then* the over 128.2 million poorest[8] clients served by the end of 2009 affected over 640 million people (L. R. Reed, 2011).

Table 1: MFI growth and impact.

Taken from State of the Microcredit Summit Campaign Report 2011

Data Point	Finding
Number of MFIs Reporting (1997-2009)	3,589
Number of MFIs Reporting in 2010 (December 31, 2009 data)	723
Percent Poorest Clients Represented by MFIs Reporting in 2010	94.6%
Total Number of Clients (as of 12/31/09)	190,135,080
Total Number of Women (as of 12/31/09)	140,117,727
Total Number of Poorest Clients (as of 12/31/09)	128,220,051
Total number of Poorest Women (as of 12/31/09)	104,694,115

1.5 INVESTIGATION OUTLINE

Chapter one provided a broad overview of:

- global organizations and human development;
- entrepreneurship and LDC development;
- centrality of investment capital to LDC development, capital delivery mechanisms, and capital devaluing effects of volatility; and
- financial services and intermediary roles, including microfinance.

[8] Income of less than $1US a day.

Global organizations strive to assemble the multi-cultural teams required to perform at high levels. Included in global organizations are public organizations dedicated to addressing some of the world's most acute challenges. Chief among these challenges is poverty alleviation in LDCs, which necessitates capital delivery mechanisms. Capital flow volatility is a major difficulty since it devalues capital provided through these mechanisms.

Chapter two reviews literature on the volatility problem and the outcome of organizational actions and interactions in this investigation: capital flow. Capital provided through markets and official development assistance (i.e., foreign aid) mechanisms are discussed. Opportunities and limitations of capital markets in LDCs are described, as depicted in literature. Also, foreign aid capital is portrayed in literature as related to normative agendas of developed nations, including political objectives. Though public organizations are depicted as primarily motivated by non-commercial, social, and political drivers, literature does not present public organizations as possessing homogenous development missions and objectives. LDCs are argued to be seriously constrained in generating the capital needed to spur development, especially extremely poor countries. Also, literature posits that LDC foreign aid relationships with donors weaken local accountability and exploit LDCs by supporting resource extraction at preferential terms of trade. Extant literature on donor foreign aid volatility is synthesized. Research confirming aid capital volatility, utilizing various measures, is referenced. In addition, structures and processes related to aid volatility in the literature are described. Moreover, methodological, data, and unit of analysis limitations of extant research are discussed in explaining the value of this investigation.

Chapter three presents part one of the research design and methods. Complexity and detail in this investigation were addressed utilizing the Institutional Analysis and Development (IAD) framework created by Nobel Laureate Elinor Ostrom. IAD performed three primary functions:

- Identified components to be considered in the investigation.
- Provided patterns of component relationships, which represent assumptions about order, attributes, and context. The assumptions are based on theoretical and empirical analysis.
- Accommodated numerous and varied theories employed in the investigation.

IAD is robust and effective in analyzing complexity. In this investigation it only served to provide basic structure to a complex array of considerations. The linear, controlled research paradigm that dominated much of the 1960s and 1970s appears confounded and often overwhelmed by the detail and complexity in this investigation's methods. However, clamoring for simplicity and conciseness can raise the analytical product so far from data that it bears little resemblance to its source. It seems scholarly communities desiring more international participation believe it may be necessary to embrace qualitative methods and presentations that are thicker (i.e., dense, many concepts and linkages) and fill gaps normally filled by implied assumptions (APSR, 2011). IAD served to incorporate and make explicit within the investigation factors bearing significantly on the phenomenon explored.

In addition to IAD, the investigation employed a case study approach. Case study methods facilitated deeply exploring complex activity occurring in capital delivery mechanisms. Case study approaches are able to incorporate numerous forms of evidence, such as reports, artifacts, and interviews. While current phenomena were examined, a controlled intervention could not be administered. The focus of the case study was activity substantially completed when the investigation began. The selection of the first UNCDF sector development programme as the case, Sierra Leone serving as the setting, and subjects are discussed in detail in this chapter. The vital importance of this UNCDF project in post-conflict fragile state Sub-Saharan Africa (SSA) at the precise time the phenomena occurred is explained. Sierra Leone is described as an appropriate context because it captured the attention of world microfinance leaders, and the assessment is uniquely fit for a West Africa model. Moreover, employing a case study within the IAD framework provided for a robust, versatile analytic device.

The methods discussion continues in chapter four by explaining the use of grounded theory within the analytic device. Grounded theory methods in this investigation attempted to conform primarily to the guidelines and thinking of Anselm Strauss and Juliet Corbin (1998). Grounded theory is primarily used to investigate problems not sufficiently explained, such as donor capital flow volatility. The chapter explains grounded theory methodology used to analyze both the capital flow process and values and beliefs that informed action-decisions (i.e., behavior) linked to capital disbursements. The techniques and procedures of grounded theory, in the Strauss and Corbin tradition, thus provided valuable evidenced-based insights on characteristics of capital flow and organizational decision making linked to capital flow.

Chapter five presents the qualitative descriptive analysis results, including an important portrayal of organizational learning. The capital flow process from investment decision until all money is accessible to the MFI is described in terms of SDP's design (espoused operating theory) and actual implementation (working rules or theories-in-use). This description's value is embedded in the view that public policy administration is the actual expression of policy and speaks to espoused theories' relevance in attacking societal problems. MFI sector development utilizing a SDP project, rather than aid directed to the Sierra Leone government, is a fundamental distinction in this investigation compared with much capital volatility literature. The state's role and analytical depth of participant action were fundamental, substantial distinctions of this investigation. Moreover, the chapter describes performance based agreements as not only a key MFI investment document, but a context integral to understanding linkages between behavior and capital volatility. The role of disbursement conditions, including MFI reporting, is also explained. The chapter concludes by detailing capital disbursement issues. Issue complexity is reflected in donor accountability processes related both to volatility and MFI accountability involving community stakeholders. Consequences of performance based agreement (PBA) disbursement conditions are postulated in participant expressions. All participant types acknowledge that unsatisfied disbursement conditions at MFIs is a factor in capital volatility. However, the appropriate and effective use of conditions was viewed differently.

Chapters six and seven continue reporting analysis results by digging deep into linkages between organizational behavior and capital flow, including presenting a lens to view complexity and interconnectedness. Chapter six presents analysis focusing on linkages between behavior and capital flow. Results are reported on the examination of interactions in a particular context and an intervening condition: performance based agreements is the context, and mid-term evaluation the intervening condition. Chapter seven continues by detailing a theory developed to identify and make sense of the case's complexity and interconnectedness: the Capitalflow Bureaucratic Triad (CBT). CBT theory defines bureaucracy as *structures and processes employing collaboration to accountably serve the public effectively, efficiently, and responsively.* CBT theory states: v*alue of capital is affected by linkages between organizational behavior and capital volatility. Capital flow volatility is determined by the interactions of three properties of bureaucracy: collaboration; accountability; and effectiveness, efficiency, and responsiveness (impact). Capital value is a function of the level of volatility and MFI condition at disbursement.* CBT was developed by close connection to data (i.e., grounding in data) and incorporates expanding traditional understandings of bureaucracy in a manner to acknowledge the centrality of hierarchical structures in organizations, while also recognizing ambiguities, conflicts, and collaborative authority structures and processes.

Chapter seven explains and applies the CBT model to observed phenomena. CBT is described by drawing on basic atomic theory. CBT properties, similar to elements of physical matter, can be found in different mechanisms. For example, both markets and organizations have accountability mechanisms. Also, the three CBT properties are viewed as ratio variables with a range of dimensions, not dichotomous variables. As such, seeing different properties of bureaucracy at different dimensions is not cause for calling bureaucracy something else; it is just a different expression. CBT theory examines behavior-volatility linkages at the most basic levels, argued to be CBT properties, and uncovers explanations overlooked or undetected at higher levels of examination. The CBT model can be applied to empirical data as an explanatory tool. It also can be applied to theoretical data to aid efforts in planning volatility constraining approaches to capital investment.

Finally, chapter eight provides four strategic recommendations for minimizing capital devaluing linkages of behavior and capital flow:

1. Directly address exogenous variables, or environmental factors, to minimize delays in capital disbursements.
2. Employ the combined skill sets of a multicultural team to expeditiously assess the situational context, detect and assess contextual changes, and maintain a calculated action-orientation while realizing changes in human behavior and life style status are long-term propositions.
3. Provide sufficient funding and marshal sufficient resources to collect data and employ the rigorous processes required to inform learning and make thoughtful, nuanced, strategic decisions as the program progresses.
4. Account for project commitments because entering collaboration makes one-on-one transactions between donors and MFIs subject to additional commitments that must be accounted for; tracking money is only part of accounting.

In addition, the chapter contains an agenda for future research. The agenda's central theme is deeply exploring different constructs of actors that give rise to behavior related to capital volatility. In an arena where participants representing different regions of the world interact to address societal problems, better understanding cultural factors can convert barriers to bridges in accomplishing common objectives. Moreover, understanding factors linked to aid capital volatility is important to developing responses to minimize volatility's capital devaluing effects. Extant volatility research is discussed in the following chapter.

2.0 LITERATURE REVIEW: HOW THE PROBLEM HAS BEEN ATTACKED

This chapter reviews the literature on capital flow and actions (i.e., behavior) of participants in capital investment deals and other explanations (e.g., structure, governance, and institutional factors) for capital volatility. Addressing the aid capital volatility problem experienced by capital delivery mechanisms needs to be better understood to assist mechanisms as learning organizations. Perhaps more importantly, it must be determined what relationships need to be explored with consideration to volatility (e.g., structures, institutions, processes, and behaviors)? These discussions are important to understanding how volatility and MFI condition affect foreign aid capital value.

The chapter begins with a brief review of the advent of modern foreign aid and capital investment attributes where return to shareholders is not a primary driver. Modern foreign aid is shaped by a post-World War II model that seems incompatible with the most impoverished LDCs today. Foreign aid efforts are challenged by a paradox of LDC's need for capital to develop, but an inability to generate it. In addition, literature suggests the donor-recipient relationship undermines local accountability. Literature is reviewed in the next section that focuses on how others have attacked volatility in capital delivery mechanisms. Ales Bulir and A. Javier Hamann are used to frame the synthesis of volatility literature, utilizing their extensive work in the area. Their research is supplemented by recent studies focused on particular relationships and programs. Finally, difficulties encountered in researching capital volatility are discussed. Access to data, methodological limitations, and the limited research to-date are part of the challenges this investigation attempts to assist. Included is how this investigation helps address these difficulties and adds to the existing body of knowledge.

Research on understanding and attacking capital volatility primarily consists of examining aid where the participants are bilateral and multilateral donors investing in LDCs. Statistical techniques were normally employed to identify statistically significant relationships between numerous independent variables thought to be related to volatility and numerous measures of volatility. Also, program evaluations and some qualitative program research provide limited discussions of factors related to volatility. Although interesting relationships were discovered, over 15 years of volatility research has found a need for much more data and different data to explain a large unaccounted for variance.

2.1 LITERATURE REVIEW: MODERN FOREIGN AID AND MOTIVES BEYOND PROFIT

Foreign aid dates back many years and is primarily driven by non-commercial factors. *Modern* foreign aid takes shape after World War II. Normative priorities, including political agendas, are often associated with industrialized nations deciding where to provide aid. Security and military factors are often integral to the analysis (Oxfam, 2005). Similarly, the recipients of foreign aid are often not primarily focused on commercial drivers (e.g., return to shareholders). This extends not only to government recipients, but other public organizations such as civil society organizations. For example, many MFIs operate or start as NGOs primarily emphasizing a social mission. In addition, international nongovernmental organizations (INGOs) are key players in providing foreign aid.

The advent of modern foreign aid occurred at the conclusion of World War II. Although world leaders anticipated European countries would *rise from the ashes* or *pull themselves up by their boot straps*, two years later it became apparent this was not happening and the Western world was confronted with rebuilding 16 countries in Europe. Though this foreign aid effort focused on nations of relatively high income, skilled labor, and established institutions such as banks and judicial systems, it is considered by many to be the model for development efforts today. This gives reason for pause since development efforts are often aimed at the most deprived, impoverished, fragile-state conditions on the globe (Picard & Buss, 2009). Moreover, Karlan and Morduch (2009) observed a startling disconnect between locations of microfinance aid capital flows and locations with extreme poverty, given that microfinance is viewed as a capital delivery mechanism to assist with poverty alleviation.

Perkins and his colleagues (2006) explain the view that foreign aid may undermine development. What may be the most important support for this view is empirical data on incentives for private sector activity. Perkins, et al., find that *flows* of substantial amounts of *aid* to a country place donors in an *asymmetrical power* position relative to the recipient project or country. It is argued the result has often been recipients acquiescing to the agenda of donors, regardless to perceived value or appropriateness, to secure on-going financial support. In essence, recipients are dependent on foreign aid for survival. Viewed this way, MFIs' accountability to the public, non-donor stakeholders is weakened by foreign aid (Jurik & Cowgill, 2005; Moss, Pettersson, & van de Walle, 2006). Furthermore, the literature depicts foreign aid machinery with a vested interest in the on-going need for aid. Italy and the United States are cited as examples where aid money is conditioned on recipients purchasing from the donor country. It is contended that dependency is supported by donor agencies seeking influence and *power* while donor staffs and retained consultants seek employment security, plus embedded reward-promotion systems (Leys, 1996; Oxfam, 2005; Perkins et al., 2006; Yunus, 1999).

A central argument of early dependency theories of development is that close relationships with open markets and rich nations have an "obstructing and blocking impact" on development (Martinussen, 1997, p. 94). Dependency theory considers policies favoring *central areas* at the *expens*e of the *peripheral* as maleficent. *Foreign investment inflows* are viewed as giving rise to *increased outflows* of interest and surplus, serving the elite and foreign interests instead of the common citizen (Seitz, 2008). For example, early dependency theories may view the subsidized loans MFIs obtain from donors as exploitive. On the other hand, MFIs that provide loans to people in the informal economy are considered people focused (Escobar, 1995). In the view of early dependency theory, the periphery has nothing to gain from capitalist development (Leys, 1996).

These theorists contend dependency theory conclusions hold regardless of the success of newly industrialized countries, which appear to contradict central propositions of dependency theory. Stephan Haggard examined the success of the newly industrialized countries (NIC).[9] His comparative study found, chief among explanations of the NIC's success, a state with infrastructure to develop and implement policies and a substantial measure of separation from powerful economic interests (Leys, 1996). Furthermore, a seemingly tacit endorsement of Rosenstein-Rodan's Big Push argument is observed in Leys' point that NICs were provided substantial capital investments and access to markets in the United States. Big Push theory of aid development asserts that massive capital infusion is necessary to spur development in extremely poor countries because they do not have, nor can internally generate, the resources needed to grow.

[9] Hong Kong, Singapore, South Korea, and Taiwan comprise the NICs. China, and to a degree India, joined this group in the 1980s. Malaysia also benefited during this period. These nations were considered to be developing nations by industrialized nations. The boom of the 1970s in electronics resulted in multi-national firms seeking out reduced-cost production operations (Leys, 1996; Perkins et al., 2006).

This is consistent with, and illuminated by, the seminal work of Emeritus Professor J. Kenneth Benson (1975). He frames the discussion of resource dependency theory,

> [I]nteractions must be explained ultimately at the level of resource acquisition…a system resource view of organizations…Such an orientation becomes, for decision makers, an operational definition of the purposes of the organization…responsible largely for maintaining or expanding this established organizational machine" (p. 231).

Benson's (1975) theoretical framework of inter-organizational interaction was created from empirical research of *exchanges* between human service nonprofit organizations. He explains that deep methods of analysis center on the *actions* of organizations to obtain an adequate level of essential resources, including "money and authority" (p. 231). He contends that missions and visions of organizations take a subordinate position as an understood assumption that can be retrieved as a legitimization mechanism for continued operations. Benson and others suggest that acquisition and maintenance of a reliable and sufficient source of capital and authority is the primary orientation of organizational decision makers (Benson, 1975; Froelich, 1999).

Nancy Jurik and Julie Cowgill (2005) conducted a case study of a training and micro lending program offered by a nonprofit community organization where struggles associated with resource dependency were observed. The researchers recorded struggles associated with daily provision of client services while securing capital for operations and lending. Competition for limited capital investment was the most pressing challenge, according to organization staff. It was felt that the pressing challenge compelled the organization to trade quality for rapidly achievable outcome measures to impression-manage investor relations. The espoused focus on the poor and very low-income people by government investors combined with accountability measures of client success and high repayment rates to create an environment where organizational beliefs acquiesced to the capital infusion imperative.

The importance and role of MFIs not infused by investor capital primarily focused on maximizing economic profits, such as NGOs, is underscored by empirical studies (Cull et al., 2008; Karlan & Morduch, 2009). Cull and his colleagues (2008) found strong evidence to suggest there is a substantive trade-off between MFIs focused on maximizing profits and those focused on outreach to the poor. The report indicates that nonprofit MFIs serve a large distinctive market representing the neediest and clearly achieve greater outreach than profit driven institutions.[10] Interestingly, the nonprofits also demonstrated encouraging financial performance. To be clear, the focus of the capital investors is being explored in this literature search. MFIs seeking to maximize profits and MFIs with a nonprofit mandate both received foreign aid. The common objective of investors and MFIs seemed to suggest a better fit. However, this is not to the absolute exclusion of profit maximizing MFIs receiving capital from social investors, nor socially focused MFIs receiving capital from investors seeking returns (Reille & Forster, 2008).

Nongovernmental organizations as social investors are found to have a distinct place in foreign aid literature. For example, a recent study of over 60 INGOs representing the larger, non-humanitarian organizations found that the organizations did not complement official aid by focusing on fragile states. In addition, it was found that INGOs selected nations that had common characteristics with regard to religion or colonial past (Koch, Dreher, Nunnenkamp, & Thiele, 2009). In another study of the allocation of aid by European NGOs over nine years to 78 recipient countries, it was found that the NGOs were more likely than non-NGO aid institutions to assist poor countries with low life expectancy. Furthermore, it was found that the NGOs were not influenced by the funding source or the commercial relationship of the recipient country with the NGO resident country (Nancy & Yontcheva, 2006). This sample of studies illustrates that, although collaboration exists, INGOs and government-related donor agencies do not unilaterally embrace the same approach to provide aid capital.

Catapulting NGOs to the forefront of development and foreign aid was not as complementary as the evolutionary relationship might suggest. Antecedents of modern foreign aid find western INGOs involved from post-World War I into the Marshall Plan after World War II (Picard & Buss, 2009). More recently new reform policies of the 1990s implemented targeted programs in cooperation with NGOs. These more recent cooperative initiatives represented a marked change in relationships. The literature reports that relationships between NGOs and donors emerged that were incomprehensible little more than a decade earlier (Howell & Pearce, 2001). The convergence of the plurality of ideological spheres in the institutional sector of

[10] Valentina Hartarska (2005) is supported by the finding of Cull et. al. (2008) as reported here (p. 1635). However, a 2009 study by Roy Mersland when he was a Ph.D. student at Adger University in Norway reports there is no difference (Mersland & Strom, 2009). Mersland used a different, less rigorous measure of average loan. In addition, the studies had other differences. Studies that report outreach level did not differ between profit-maximization organizational orientation and nonprofit orientation should be reviewed carefully to be clear on measurement methods and sample composition.

NGOs gave reason for pause. The explanation of civil society organization presented by Michael Edwards (2004) seems most appropriate at this juncture of the donor-NGO relationship,

> Depending on whose version one follows, civil society[11] is either a specific product of the nation state and capitalism…or a universal expression of the collective life of individuals at work in all countries and stages of development but expressed in different ways according to history and context (p. 3).

In summary, foreign aid in development efforts is a complicated device. On one hand, LDCs are viewed as unable to generate the capital needed to spur development, especially in extremely poor countries. On the other hand, relationships with donors of industrialized nations are viewed as weakening the ties with local stakeholders and considered to be exploitive with the intent of extracting resources at preferential terms of trade. Though donors are primarily driven by non-commercial considerations, at times relationships with recipients have attributes associated with unhealthy outcomes. Public organizations are primarily motivated by non-commercial, social focused drivers; however, public organizations do not possess homogenous development missions. These drivers and missions are reflected in research on aid capital volatility.

2.2 LITERATURE REVIEW: HOW OTHERS ATTACKED CAPITAL VOLATILITY

The most cited researchers of aid volatility and predictability are Ales Bulir and A. Javier Hamann. As these scholars point out, donor commitments have lower predictive power in poorer, more aid dependent nations. The primary value of Bulir and Hamann's (2003) work to this investigation was twofold:

- Finding that "average absolute aid volatility" behavior is consistent with relative volatility (p. 70 note 14); and
- Analysis of projections and disbursements of program and project (sector) aid in 28 nations concluded program aid had the greatest projection-disbursement difference and project aid was lower than projections by at least 5%.

---

[11] One definition of civil society includes the descriptor nongovernmental organizations (Edwards 2004, p. 21).

These findings undergird this investigation by vividly illustrating the presence of aid volatility in aid dependent settings, regardless of the level of non-aid revenue. Also, the findings suggest that disbursement projections for specific projects, similar to SDPs, can be made more accurately than disbursements to governments for programs in the national budget.

Three research teams followed this seminal work and found additional support for the importance of strong government institutions. They took a closer look at the volatility experienced by government programs and sector support and studied possible explanation for low predictability. One team extended the Bulir and Hamann research by analyzing disaggregated aid provided to governments and ascertaining differences in capital volatility. At about this same time another team of researchers discovered capital volatility differences between institutions that quickly improve and those that quickly weaken.

Fielding and Mavrotas (2005) extended the 2003 work of Bulir and Hamann. They disaggregated aid into sector and program for 66 countries and utilized the disaggregated data to conduct a more rigorous analysis than Bulir and Hamann. Noting the explanatory weakness of a single aggregate to measure aid, they explained different conditionalities that accompanied different types of aid. For instance, sector aid, such as aid provided to state institutions to develop an inclusive financial sector, involves donors providing aid for a period of time with parameters on use and management. Sector aid emphasizes physical and human capital investment, which affects long-term development outcomes. Program aid is not linked to a specific project and has been characterized in various forms such as budget support, food, and humanitarian aid. This distinction in the analysis sheds a little more light in understanding aid volatility, measured as a percentage change in aid flows. Program aid is considerably more volatile than sector aid.

Furthermore, Fielding and Mavrotas (2005) tests four hypotheses that propose to explain the uncertainty of aid flows. Two are of particular interest to this investigation:

- Nations with a policy regime favored by donors may obtain more aid; however, these flows may be more volatile as explained by a permanent enhancement in the policy regime receiving a reward of a temporary increase in aid.
- Nations possessing higher ranked institutions may possess a greater capacity to maintain positive working relationships with donors, resulting in decreased volatility.

The policy regime measurement was based on the frequently cited work of Dollar and Kraay (2003) where they found high volumes of trade (indicative of open trade policies), strong institutions, and rapid growth are connected. Ranking of institutions by Fielding and Mavrotas utilized several factors from research conducted by Daniel Kaufmann and his colleagues (2003). Though Filed and Mavrotas did not use all the factors, results found all the components employed from the set show institutional quality reduces volatility.

Victoria Levin and David Dollar comprised another team of researchers. Their work (Levin & Dollar, 2005) found that fast improvement or weakening of state institutions provides a partial explanation for differences in aid volatility between difficult partner countries (DPCs) and other low-income countries. In their 2005 research, donors' aid allocation to DPCs was analyzed to determine if the amount deviates from the expected based on, among other variables, the institutional environment (as defined by World Bank's Country Policy and Institutional Assessment). The findings supported conclusions in their 2004 study showing donor support for nations with stronger institutions (Dollar & Levin, 2004; Levin & Dollar, 2005). Moreover, the authors reported that numerous bilateral and multilateral donors have changed allocation practices to favor nations with greater institutional strength (Levin & Dollar, 2005). The work of Levin, Dollar and others illustrates the linkage between a nation's designation as a fragile state and providing weak institutional services, such as the monitoring function of microfinance regulators (Momo et al., 2011).

Oya Celasun and Jan Walliser composed the final of the three research teams. This team used IMF program data to explore questions related to aid volatility and predictability (Celasun & Walliser, 2008). They found an empirical distinction between volatility and predictability primarily related to the level/amount of aid. In addition, their work supports findings of other researchers regarding the devaluing effect of aid not disbursed as promised. Most importantly for this investigation, they found that:

- Behavioral factors relating to disbursement conditions and donor bureaucratic issues account for disbursement delays.
- The difference between aid disbursement and commitments for some post-conflict countries were "staggering" (p. 557).

The researchers also explored the justification for disbursement delays, explaining that there were instances when volatility was a desired result of participant actions.

Bulir and Hamann updated their work in 2003 and 2007 by extending their analysis with post-Poverty Reduction Strategy Paper (PRSP) data. Also, in 2008 they added new data and measures. Their 2003 research suggested that work associated with PRSP could reduce volatility. It was believed that PRSP would result in better ownership and conditionality compliance by recipient countries and better coordination among donors, resulting in a reduction of aid flow volatility. The relative volatility of aid, that is, aid in relation to domestic revenue, had increased on average in the post-PRSP period. Specifically, the relative volatility increased post-PRSP after showing a decline in 1995-98. In addition, there was no substantial evidence that absolute aid volatility had decreased (Bulir & Hamann, 2007). The assumptions regarding the expected behavior associated with PRSP were not examined to determine if they were prevalent or simply not substantially linked to volatility. Earlier research drilled deeper and found certain donors negotiating disbursement conditions without using the PRSP framework as the basis (Oxfam, 2005). The 2008 update uses commitments and disbursements of long-term loans as an approximation for aid as the aid flow commitment-disbursement data base did not exist. The researchers' data indicated no improvement in disbursements relative to commitments, with the poorest nations experiencing a shortfall in excess of 40% (Bulir & Hamann, 2008).

A partnership of donors analyzed aid capital (primarily budget support) to a region with some of the poorest countries on earth (SPA, 2008). Several reasons for delayed disbursement in several African nations were reported by donors, including:

- Primarily administrative problems on the donor side—41% of respondents
- Recipient government administrative delays—38% of respondents
- Recipient government failing to meet conditions—35% of respondents

Recipient countries were asked to rank donors, overall and individually, on a number of factors. Three of the questions explored capital disbursements and provided insight into their assessment of donor capital volatility. In general, donors (primarily bilateral donors and international financial institutions) ranked higher than the previous year on disbursement performance.

A few years earlier a survey of eleven LDCs across global regions was conducted (Oxfam, 2005). The unpublished report was developed from 2004 data collected by asking ministry staff of recipient governments to express their views on specific dimensions of donor practice. The responses involved six donors, primarily bilateral and the World Bank. The recipient countries were to have worked with the donors during the previous two years. The study confirmed the presence of volatility in over 30% of cases. As in the research conducted by the partnership of donors, recipients reported improved disbursement. An interesting finding is that recipients believed coordination was integral to constraining volatility. The power of donor collaboration was an antecedent to improved working relationships with recipients. Also, the report pointed out that recipients are held accountable for performance by donors; however, there is not a robust accountability mechanism for donors.

Autonomous evaluation units are often used by public organizations to assist with accountability. A recent evaluative study conducted by such a unit within the World Bank provides interesting insights into behaviors linked to disbursement performance, or capital volatility. The evaluation assessed the Poverty Reduction Support Credit (PRSC), a World Bank tool in providing aid (PRSC Evaluation, 2010). PRSC is a lending program utilizing principles of indigenous stakeholder input and development holistically defined to include structural, institutional, and social interests. More importantly for this investigation, PRSC was aimed at reducing the burden of conditionalities. The evaluation discussed disbursement concerns in considerable detail. Two key discussions were particularly germane: conditionality and flexibility. Although a decline of legally binding conditions for tranche disbursement began prior to PRSC, the evaluation found PRSCs had a lower number of conditions than other policy-based lending 1980-2008. This reduction is believed to be related to "fast-disbursing loans" (PRSC Evaluation, p. 24). However, clients perceived the number as still too high. This was believed to be, in part, because other non-legally binding measures of performance incorporated in the program were confusing clients. The flexibility discussion in the study explained how PRSC allowed adaptation to local environments by modifying the condition, its timing, or elimination when deemed unrealistic. PRSCs experienced extensive use of flexibility, but surveyed donor staff suggested modifications were frequently made due to disbursement pressure from management, and in some cases was ill advised.

Other work attacking the volatility problem has provided valuable insights to assist understanding and researching the problem. Donor commitments have not been an effective device to decrease volatility. Aid volatility differs by type of aid. Sector aid, similar to SDPs, is less volatile than program aid (e.g., general budget). Also, larger emergency aid is associated with higher volatility. LDCs engaged in developing strategies to reduce poverty did not reduce volatility. LDC economies more open to trade have higher volatility, as do policy regimes favored by donors. Rapid changes in the quality of institutions affect the level of volatility, and improved institutional quality reduces sector aid volatility. The limited work focused on behavior found donors explaining volatility in terms of administrative difficulties and the failure of recipient governments to meet conditions. On the other hand, research based on data collected from recipient countries provided limited explanations for volatility. Recipients' responses connected donor coordination with timely aid disbursements and ranked donors' performance, which suggested a trend of improvement. The number and content of disbursement conditions attached to capital investment deals were connected to the level of volatility. When a flexibility device was available to respond to contextual changes it was often perceived to be misused as a tool to respond to donor management disbursement pressure. Longer relationships between donors and recipients were related to lower differences between expected and actual disbursements. Still, researchers have universally cited a large unexplained variance and the need for more and better data to address the problem. These concerns are discussed in the next section.

2.3 LITERATURE REVIEW: CHALLENGES ENCOUNTERED BY OTHERS

Sufficient work on aid volatility has fostered a good understanding of the future research challenges and limitations to the extant body of knowledge on the topic. The existence of a large unexplained variance has been recognized. Factors insufficiently explored have been highlighted. Data limitations have become apparent. Also, the need for robust, deep research is clear. The extensive literature on aid volatility almost exclusively aims at macro level effects or briefly addresses micro-project level volatility as a portion of a larger evaluation (Eifert & Gelb, 2005, 2008; Latortue, Littlefield, Siedek, & McKee, 2007; Levin & Dollar, 2005; McGillivray, 2006). Moreover, given the importance of capital funding to microfinance in LDCs, especially foreign aid, it is surprising that no study could be found connecting capital volatility to microfinance funding.

On occasion researchers attempt to infer macro findings at the micro level, such as the MFI sector program level. For example, aid volatility research findings pertaining to sector focused *budget support*, such as developing an inclusive financial section in a nation, applied to an SDP-type project. However, researchers acknowledge numerous difficulties in doing so and include *budget support* definition differences (2008). Explanations of project level volatility have not been developed by independent researchers because access to the appropriate data to rigorously, deeply explore the questions is limited (Birdsall, 2004). A small exception is program evaluations gathering input in accordance to a priori defined outcomes and measurements.

Studies repeatedly cite the need for additional detail to understand aid volatility. For example, researchers found a substantial amount of variance remained unexplained. They discussed the inadequacies of existing data sets and concluded that “An ideal dataset would also indicate why committed or expected aid and actually disbursed aid differ” (Celasun & Walliser, 2008, p. 554). For example, researchers did not have access to key documents detailing capital investment deals between donors and recipients nor discussions where actors expressed their beliefs in their own words in closed meetings (Oxfam, 2005). When data was available, some important data sets were aggregated in a way that vital distinctions were not uncovered.

Organizational behavior has been underexplored and remains substantially uncovered. Researchers have examined the relationship between volatility and, for example, a LDC being designated as a fragile state or having certain governance characteristics (Bulir & Hamann, 2008). Conversely, observing behavior to develop definitions and identify relationships is sparse in the literature. Research was located that assessed the appropriateness of disbursement-delaying behavior; unfortunately, rich descriptions of the behavior with linkages to volatility were not provided (Celasun & Walliser, 2008). Behavioral responses to the influence of accountability mechanisms, for example, were not sufficiently explored (Oxfam, 2005). Just as a recipient is held accountable for satisfying disbursement conditions, a donor's behavior in response to accountability for disbursement commitments is important. Similarly, information connecting donor and other participants behavior to volatility in the constraining context of collaborations is sparse (Oxfam, 2005).

The setting and factors explicitly considered in studies reveal limitations in some of the research. One study examined capital investment in government budget sector development programs to observe relationships between volatility and institutional ranking of the government. The ranking of institutions used a set of factors from prior research while leaving unexplored the factor in the set that measured perceptions conflict would destabilize the government institution (Fielding & Martrotas, 2005; Kaufmann, Kraay, & Mastruzzi, 2003). Numerous studies measuring aid effectiveness, many including volatility effects, are sensitive to environmental factors and yet often overlook such exogenous variables in their analysis (Oxfam, 2005).

Field work in challenging LDC settings is often strenuous and expensive, resulting in methodological approaches and subject selection that constrain analytical rigor. In addition, the overwhelming focus on aid to governments can make it difficult to focus on and isolate certain behaviors that may be common among aid capital recipients in expansive government institutions. Another constraint faced in much extant research is the amount and timing properties of volatility (Celasun & Walliser, 2008; World Bank, 2010). Expectations regarding amount of capital and timing of disbursement are both important. If treated as separate variables there are likely to be collinearity difficulties. Although certain measures may show capital disbursement amounts as expected, it is highly likely timing volatility is more prevalent.

In other words, by the end of the designated agreement period most committed capital may be disbursed; however, it was likely delayed at one or numerous points during the agreement period. This timing property has not received sufficient attention in research to-date.

Research subject selection and data sources challenged limited rigorous analysis. This issue is related to difficulties accessing data. Studies exploring questions important to understanding the problem used instruments that imposed a construct on responders in eliciting their views and beliefs. On one hand, this approach is more constraining than allowing responders to express views and beliefs using their own words. On the other hand, instruments normally had other advantages in the analytic process, such as facilitating certain statistical calculations. Moreover, often there was only one data source used to elicit responses to a question. For example, a study may focus on donors or recipient governments; when both were included they were asked different questions (SPA, 2008; World Bank, 2010).

These are important challenges that on-going research is seeking to overcome. The relationship between organizational behavior and capital flow volatility is insufficiently explored in the existing literature (CGAP, 2002; Latortue et al., 2007; Reille & Forster, 2008). Furthermore, no research could be located connecting microfinance, foreign aid capital, and capital volatility. More specifically, research utilizing grounded theory technique[12] to examine linkages between capital flow volatility, donors, and microfinance institutions could not be found. The methods and techniques in this investigation can be viewed in light of these challenges to researching capital flow volatility while considering different ways to respond to these important challenges.

Capital flow is the outcome from capital investment deals that is the spotlight of this study. In grounded theory this outcome is referred to as the *consequence* when employing the *coding paradigm* (Hallberg, 2006; Strauss & Corbin, 1998). The opportunity (value) of the capital flow in this investigation was measured by time and MFI condition at disbursement (Ostrom, 2005). Time dimensions ranged from when MFIs received the official investment capital approval notice until the complete investment was made or disbursed. MFI condition at disbursement had several properties with dimensional ranges. Examples of properties include

[12] Grounded theory techniques accommodate diverse data types, allow for eliciting constructs and explanations from interviewees nonintrusively, and analyzes text data by fragmenting and re-aggregating to form concepts as foundation components of dense, integrated theory. These techniques are discussed extensively in chapter four.

outreach, financial performance indicators, and institutional factors (e.g., governance, internal controls, data and information systems). Actions of participant in a deal impacted the value of the outcome. Therefore, certain actions added or took-away from value. The permitted, required, and forbidden actions of participants were determined by rules specified in documents (espoused rules). Also, actions were determined by the relative control participants exercised (working rules). Understanding the problem and responses, while working to develop remedies, involves seeing linkages between behavior of all actors in deals and the problem, or value-impacting volatility of disbursements. The following chapter begins presenting the research methods and techniques employed in this investigation.

3.0 RESEARCH DESIGN: SUBJECT SELECTION AND ANALYTICAL FOCUS

This investigation approached volatility with the assumption that a substantial portion of what remained unexplained would be found by better understanding relationships between volatility and behaviors at the organizational level. The capital delivery mechanism analyzed in this investigation, the first UNCDF sector development programme (SDP), was involved in many activities to produce outputs and outcomes selected and defined by its organizers. As such, this investigation narrowed in on activities that identified and explained linkages between organizational behavior and capital flow. This investigation was not about how microfinance institutions helped people emerge from poverty and enhanced their self-worth. Similarly, it was not focused on decision processes involved with foreign aid donors deciding to participate in the SDP nor on decision processes resulting in capital investment in deals. The focus of this investigation is phenomena associated with capital investment deals to identify linkages between behavior and volatility.

Investigating aid capital volatility is essentially an analysis of *public organization* behavior and donor foreign aid *capital flows* in a LDC. Behaviors are actions/interactions, strategies, and tactics. *Aid flows are operationalized in numerous ways in the literature; however, it will be shown that participants in this investigation understand it in terms of different time dimension.* ***Volatility is variability in disbursement timing of each tranche from the time a capital investment deal was approved and as measured against the structure of the deal*** (e.g., length of time to satisfy conditions, and length of time between satisfying conditions, TSP requesting donor disbursement/processing disbursement, MITAF process/procedure).

This chapter is part one of setting forth the research design and methods used to examine the *interactions* associated with capital flow pursuant to capital investment deals. Public organizations and donor foreign aid have a complex relationship shaped by important environmental (exogenous) factors, which requires a robust framework to structure examination. The framework selected clarified analytic components and relationship, narrowing in on a specific aspect in the complexity to facilitate developing substantive theory. In addition, a case study method was used to explore empirical data pertaining to a project beginning several years before commencing examination. Also, grounded theory approaches were used to elicit diverse insights and participant perspectives, as well as analyze interview and archival data containing details of key interaction attributes. Some data were analyzed to calculate descriptive and inferential statistics used to portray activity levels and timing, including statistically significant differences between periods of activity. The following details how this investigation combined these analytics to develop a robust investigation of linkages between organizational behavior and aid capital volatility.

This chapter provides investigative methods and techniques used to frame the study and select the case. First, the initial UNCDF-SDP is described as the space where deals are negotiated and implemented. SDP, as the case study, is explained and participant information is provided. The UNCDF-SDP was a collaborative project. Project participants included the Sierra Leone government, donors, MFIs, and an apex mechanism administered by a technical service provider (TSP). Participants were subjects that employed *action/interaction strategies and tactics* to alter and respond to capital flow, as well as changes in *context or conditions*, including *macro* conditions (Strauss & Corbin, 1998). It is argued in detail that the case study method, microfinance, the first SDP, and Sierra Leone are uniquely appropriate for this investigation. The research questions are also presented.

Second, the Institutional Analysis and Development (IAD) framework is presented as a tool for framing the investigation. The general variables of the framework are specifically identified as pertaining to this investigation. This includes a detailed discussion of the environmental variables that other research was charged with insufficiently considering. Three environmental factors shaped the case: MFI regulation, informal economy, and rules. The following chapter will discuss data collection and analysis in the grounded theory tradition.

3.1 THE CASE STUDY AND RESEARCH QUESTIONS

The case study approach is well suited for this close, detailed analysis of capital investment deals. Case study analysis is appropriate for relatively current phenomena where a controlled intervention cannot be administered. This investigation of a UNCDF-SDP involved 2004 through 2009,[13] which does not lend itself to experimental controls as the project was near completion at the commencement of this investigation. Case study techniques have the capacity to incorporate numerous forms of evidence such as reports, interviews, and artifacts. For example, observations, interviews, and archival and document analysis data collection procedures are appropriate for the case study approach. Each was used in this investigation.

The purpose of this investigation was not to generalize to all MFIs nor all flows of donor aid. Rather, it was to develop a substantive theory applicable to SDPs and other collaborative arrangements to create inclusive financial sectors (Glaser & Strauss, 1967; Strauss, 1987; Strauss & Corbin, 1998), as well as add to current theory.[14] These are appropriate aims for case study research (Yin, 2009). The case study method accommodated the complexity and many components of interest in this investigation, such as environment, capital flow, and participant actions/interactions. Each aspect underscores the applicability of the case study approach.

This investigation will add to aid volatility and organizational literature by answering three research questions as applied to the SDP case:

- How do different actors account for variances in capital disbursements?
- What responses do different actors recommend to reduce variances?
- How are organizations' behaviors linked to volatility in disbursements?

The resulting substantive theory represents the actors in the SDP case and is applicable to that collaboration; it focuses on the population from which it was developed (Strauss & Corbin, 1998). It also can be applied to similar settings as set forth in this chapter. This theory is labeled Capitalflow Bureaucratic Triad. The theory states: *Value of capital is affected by linkages between organizational behavior and capital volatility. Capital flow volatility is determined by the interactions of three properties of bureaucracy: collaboration; accountability; and effectiveness, efficiency, and responsiveness (impact). Capital value is a function of the level of volatility and MFI condition at disbursement.* The explanatory power of the theory and

[13] This investigation focuses on 2006-2009, though not exclusively.
[14] Strauss and Corbin draw upon the Glaser & Strauss classification of theories as substantive or formal. Formal theories are useful to broader interests and concerns. They are derived from analysis involving diverse conditions and sampling. Substantive theory applies to the population and context from which it was derived; however, similar conditions and populations can benefit, such as SDPs in conflict, fragile state settings.

model was found in the specific external variables shaping capital investment deals, particulars of a deal, organizational behavior, structure of the collaborative, and related capital volatility (Eisenhardt & Graebner, 2007; Strauss & Corbin, 1998). In other words, CBT's ability to explain what may occur in certain situations is the *framing* of conditions that give rise to capital disbursement and the actions/interactions employed, and *explaining* the volatility affect. The following section argues that the first UNCDF-SDP is an appropriate selection for the case.

3.1.1 Case Selection: Why microfinance, SDP, and Sierra Leone?

Capital delivery mechanisms are needed at various levels of LDC societies and for numerous development instruments. Capital volatility at these levels and for these instruments devalues the foreign aid disbursed. This section argues that microfinance is a valuable instrument, SDP a valuable mechanism, and Sierra Leone a valuable LDC setting for examining linkages between organizational behavior and capital volatility.

3.1.1.1 Why microfinance?

The need for capital delivery mechanisms and challenges of capital volatility are vivid when viewed through microfinance institutions (MFIs). MFIs are a ubiquitous development device in LDCs. They have demonstrated the potential to be an effective capital delivery mechanism for poor people.

The problem of volatility experienced by aid capital delivery mechanisms is better understood by examining capital investments in instruments that provide capital directly to poor people in LDCs. Microfinance is one of many development instruments and is intriguing because it demonstrates that the poor are bankable.[15] Access to financial services such as savings, insurance, transaction instruments (e.g., checking accounts, debit/credit cards, mobile phones), and credit help poor entrepreneurs and households improve their welfare and manage economic shock (Karlan & Morduch, 2009). Although rigorous research on the role of microfinance in improving the lot of the poor is sparse, encouraging work has shown that better financial institutions and private credit both grow aggregate output through an increase in

---

[15] Bankability is a measure of the poor's insurability, capacity to repay loans, and accumulate savings (Karlan & Morduch, 2009),

savings and improve income dispersion (Beck, Demirguc-Kunt, & Levine, 2007; G. R. G. Clarke, Xu, & Zou, 2006; Gries, Kraft, & Meierrieks, 2009; Joseph Stiglitz, 1988). Given that futility often connects with efforts to establish statistically significant relationships and causation to development interventions, it seems to be more important that microfinance is a development instrument with the potential to be self-sustainable. Even if lacking statistically significant evidentiary backing, the early 21st century economic environment (i.e., resources and capital are constrained), favors self-sustainable development instruments with measurable outcomes.

While microfinance dates back centuries, its recent use as a component of the global development agenda has pointed to important questions. A particularly heated debate involves the structure and mission of MFIs:

- Are these financial services best provided by non-profit or for-profit institutions?
- Is profit maximization or social outcomes the best organizational purpose?
- Can a combined goal of improving the lot of the poor and operating sustainability result in sufficient outcomes that warrant a long-term investment?

For example, consider India's microfinance sector began as a nonprofit endeavor emphasizing social outcomes, but also experienced success commercially. This commercial success has led to a political backlash with potential to have impacts some contend will be similar to the subprime mortgage meltdown, with global implications (Bajaj, 2010; Polgreen & Bajaj, 2010; Taylor, 2011). This empirical paradox illustrates the divergence that occurs in striving to achieve a dual bottom-line mission.

Lending to the poor in Ireland was used to improve both economic and social well-being in the 1800s (i.e., dual bottom-line). Its use today speaks to the persistence of the belief in financial services as central to fighting poverty. Nevertheless, MFIs' centrality in the development paradigm ultimately makes it the focus of critical evaluation. Numerous concerns regarding effectiveness in alleviating poverty and opportunity costs of not funding alternative instruments are often expressed (Dichter, 2007; Hulme, 2007).

The cross-cutting impacts of microfinance on development issues, including gender and education concerns, and its appeal to private and public investors attract researchers spanning organizational, social, political, and economic fields (Armendariz de Aghion & Morduch, 2005; Dunion, 2010; Imboden et al., 2006). Researchers have examined microfinance institution governance and financial performance. Studies have considered the impact of subsidies on credit allocation, such as targeting women when providing credit. Scholars have explored questions of microfinance aid allocation around the globe. Examining microfinance to understand the relationship between capital volatility and organizational behavior adds to a rich, diverse body of literature.

At present, when income disparities are growing globally, it is important to aim for uncovering instances, descriptions, and explanations of capital flow volatility pursuant to investment deals, especially as they relate to microfinance institutions. Organizational actors interacting in foreign aid capital investment in an MFI need to be understood in terms of lived reality directed at poverty alleviation. It is here that NGOs, international aid agencies, local governments, and nation states can experience organizational learning and organizational intelligence.[16] *Microfinance is an appropriate intervention to study this linkage phenomenon because of its centrality to the global development agenda, the integral role the financial sector has in a nation's administrative institutions, and the apparent interconnectedness of actor behavior and capital flow.*

3.1.1.2 Why the first UNCDF Sector Development Programme?

In 2003 the United Nations Capital Development Fund (UNCDF) created its first SDP as a capital delivery mechanism for Sierra Leone in response to the need for capital and a delivery channel, the Microfinance Investment and Technical Assistance Facility (MITAF). From 2003 through 2009 UNCDF formed 22 sectors development programs that serve as capital delivery mechanisms in LDCs. The MITAF case was the space where one or more donors, a MFI, and the apex (technical service provider) interacted. MITAF was created by a collaborative agreement involving the government of Sierra Leone, Bank of Sierra Leone, UNDP, and UNCDF. Kreditanstalt für Wiederaufbau (KfW), a German development financial institution, and Cordaid, an Amsterdam based Catholic INGO joined the project's governing Investment Committee (IC) in August 2004 and December 2004 respectively. The collaboration initially committed $12.5 million USD to assist in developing a pro-poor financial sector in Sierra Leone.

MITAF, functioning as an apex, was administered by a technical service provider (TSP) selected by the IC in July 2004. Over time, the TSP recommended, with the IC selecting, sixteen microfinance institution partners ostensibly according to criteria contained in the UN

[16] Organizational learning involves behavior changes as knowledge and awareness are acquired. Organizational intelligence is a sustained improvement in performance as a result of learning (March, 1999).

Programme Support Document (project support document). Project funding intended to address and underwrite several key sector capital needs, including technical assistance; training fellowships, including institutional development; capitalization; operating losses; fixed assets; and loan funding.

The project approach, as opposed to a corporate entity, was selected as the initiative's vehicle as the most expeditious. This decision underscores the importance of rapidly advancing MFI sector development, as expressed in the project support document. This decision created a context that affected organizational behavior and capital volatility. In MITAF distinctions of market, government, and civil society were apparent, yet often indistinguishable. Donor diversity, timing and context relative to the end of armed conflict, a Sub-Saharan Africa (SSA) setting, and the interest of international leaders made MITAF a complex and interesting case within which to examine relationships between organizational behavior and capital volatility.

3.1.1.3 Why Sierra Leone?

Sierra Leone, a post-conflict fragile state SSA nation, has several attributes that made it a valuable setting for this investigation. First, Sierra Leone experienced a brutal civil war that ended in 2002. It was recognized that a vital part of rebuilding the country was the creation of a sound, broad, and far reaching financial services sector. In Sierra Leone this need produces significant demands for the diverse set of actors developing the financial sector. Second, Sierra Leone developed a national policy to guide post-conflict rebuilding, including adopting a National Microfinance Policy. A key component of the policy underscored Count's (Counts, 2010) point regarding the need for capital delivery mechanisms; substantial capital was needed to develop an inclusive financial sector for the country. A vehicle for delivering the capital was just as important due to the fragile state of the post-conflict government.

Third, in support of the national policy, diverse donors and leaders in microfinance responded to the need for capital by collaborating with the government of Sierra Leone to develop a pro-poor financial sector. From 2003 through 2009 UNCDF formed 22 sector development programs that serve as capital delivery mechanisms in LDCs; Sierra Leone was the first location selected. This distinguishes the country among developing nations. Leaders in microfinance considered Sierra Leone uniquely situated to serve as a model for West Africa due to its weak framework as a fragile state (MicrofinanceFocus, 2009; UNCDF, 2004a, 2008). It was believed successful interventions in the country can inform developing effective programs in the region. Particularly important for serving as a model, was the SDP's design to operate exclusively during the critical years following civil war (when conflict is most likely to re-erupt) and the period when post-conflict states are most capable of effectively absorbing foreign aid.

The fragile state attribute is inseparable from its pre-war colonial history (Picard, 2005). Sierra Leone's pre-war period during the 20th century was highlighted by independence from British rule in 1961. Sierra Leone is approximately the size of the state of South Carolina in the United States and located on the coast of West Africa. Pedro da Cintra, a Portuguese explorer, named the country *Serra de Leao* roughly translated as *Lion Mountains* in 1462. The current capital, Freetown, was founded by the Sierra Leone Company in 1787 and has been home to former African slaves from America and the West Indies. After becoming Britain's West African colony in 1792, Sierra Leone served as the residence of the governor for the settlements of Gambia and the Gold Coast.[17] In addition, Sierra Leone was considered to be the educational center of British West Africa. However, the Sierra Leone turned over by the British to residents of the country was extremely poor (e.g., viewed by many as raped of the best diamond reserves), practically illiterate (literacy rate below 10%), and possessed frail government institutions.

Following independence, a new prime minister took office pursuant to the 1967 elections. He consolidated power by creating a one-party state and implementing a patrimonial political system. This political situation permitted Increased corruption, patrimonialism, and deterioration of government institutions to take place and effectively marginalized Sierra Leone tribes and people. In response, unemployed and excluded young men formed the Revolutionary United Front to overthrow the abusive regime. A civil war ensued that tore the nation once known as the "Athens of West Africa" (A. Patton, 1996, pp. 59, 60) into ruins and covered it with blood until a peace agreement was finally reached in 2002 (Donovan, Smart, Moreno-Torres, Kiso, & Zachariah, 2005). Rebuilding was essential for national recovery. Part of this recovery was creating a, sound, broad reaching financial system — a hallmark of truly modern societies.

[17] The Gold Coast was the name given by Europeans to the region now known as Ghana. The Portuguese, first to arrive to the region in 1471, found substantial gold deposits in the area. European traders created residences along the coast in the years following the discovery to trade these resources. The British Gold Coast was established in 1821 as the British took control of coastal lands.

Figure 1: Sierra Leone map.

http://www.worldatlas.com/webimage/countrys/africa/sl.htm

Sierra Leone's poverty and banking-access challenges are reflective of SSA's distinction in the developing world. According to a 2002-2004 data, the proportion of the SSA population with a bank account in prudentially regulated financial institutions[18] was less than 20% compared to the West and Asia, with substantially more people holding bank accounts (Karlan & Morduch, 2009). The vast majority of the poorest clients served were in South Asia, which recorded a decrease in the *proportion* of poorest from 1981-2005 (from 60% to 40%) with the *absolute* number remaining constant at approximately 600 million. In SSA the *proportion* remained virtually unchanged at 50%, while almost doubling in *absolute* terms to over 300 million. This comparison illustrates the relationship between access to financial services and reduction in poverty, as well as the disparate experience of SSA. Similar to the focus on poverty and disparate resource flow by Stephane Pallage and Michel Robe (2003) when selecting SSA for their business cycles welfare cost study, this investigation in a SSA nation is particularly germane.[19]

[18] Prudential regulation pertains to deposit taking institutions (2006, p. 36).
[19] The poverty disparity is underscored by empirical data showing much of the developing world trending toward halving those living on less than $1.25 per day while SSA is left behind. Research has found SSA is the only region where more than 50% of people are in extreme poverty (Dunion, 2010).

The connection between microfinance clients, capital flow, and foreign aid in Africa is backed by empirical evidence. A survey recording pricing and other constraints related to financial service access in the top commercial banks (categorized by size) specifically notes the inaccessibility of commercial banks in Sierra Leone. Sierra Leone represents an extreme example where owning a checking account involved fees greater than 25% of per capita gross domestic product (Karlan & Morduch, 2009). This illustrates how capital provided to Sierra Leone commercial banks did not translate into improved access to capital for the poor because of factors such as account maintenance cost incurred by customers. In addition, the International Monetary Fund categorized Sierra Leone financial sector as "underdeveloped" because the nation only provided *one account for every 32 people* and *private sector credit at 5% of gross domestic product* (IMF, 2009b). Data reflect African citizens' capital taking flight off the continent to the tune of 40% of portfolio value, with alarming figures in SSA (Cai & Theisman, 2005; Salisu, 2005; The Economist, 2005). Disparate access to financial services and lack of capital employed to address this issue underscore the importance of capital delivery mechanisms with constrained volatility to strengthen aid capital value.

Sierra Leone is a major foreign aid recipient and one of the most challenged nations in human development. Economist Dwight Perkins and his colleagues (2006) posit that foreign aid from industrialized nations is a *vital* capital flow for developing countries. No other part of the world receives a greater proportion of aid than Africa. In 2009 aid per capita was $47 USD to Africa, with SSA receiving multiples more than northern Africa (Deutscher, 2010; OECD, 2011). Moreover, aid to Sierra Leone was almost double the amount invested in SSA (Deutscher, 2010). SSA has one of the lowest human development measures globally and faces formidable challenges in this area; in 2010, Sierra Leone ranked 158 out of 169 countries on human development progress (UNDP, 2010). Sierra Leone is extremely poor, receives substantial amounts of foreign aid, and has a very large segment of the population underserved by the financial sector.

These details point to the urgency and importance of having an effective capital delivery mechanism. With the end of war, how could poor, untrained people in Sierra Leone make a living while contributing to the rebuilding and restructuring of a devastated country? Sierra Leone's leaders developed a plan that initiated the National Micro-Finance Policy. The policy was developed by a public-private task force and approved by the Sierra Leone cabinet. The policy acknowledges linkages between reduced poverty and economic growth. The policy also recognizes that microfinance services result in more productive economic activities undertaken by the population (RSL, 2002a). Lack of capital was a major constraint in developing a viable pro-poor microfinance sector.

The validity of this major constraint seems to be reflected in citizen activities and plans. For example, a comparison between 400 Sierra Leone microfinance borrowers and 900 non-borrowers and to national statistics found that activities involving livestock, poultry, and agriculture were more prevalent among microfinance borrowers than both non-borrowers and the national average (BRAC, 2010). In addition, according to this and other studies, borrowers more often planned to start new enterprises in the coming year than non-borrowers (BRAC, 2010; Karlan & Morduch, 2009). The relationship between microfinance clients, higher instances of productive activities, and reports of plans for new enterprises suggested that relief from capital constraints was associated with increased economic activity in Sierra Leone. Investigating capital flow volatility in delivery mechanisms was well served by focusing on a SDP in Sierra Leone.

3.1.2 Organizations as participants and people as corporate actors

It is important to understand the perspective of this investigation regarding diverse actors, people interviewed as corporate-actors representing organizations that participated in a Sierra Leone-based capital delivery mechanism (Strauss & Corbin, 1998). Although the participants in this study consist of three types of corporate actors - or “decision-making entities” –as Ostrom (2005) explains—they are *connected* to other environments or settings. This connection is illustrated by how rules are perceived and understood by different cultures. In other words, people are viewed as organizations, rather than individuals. The IAD framework allows for, and deems it appropriate to give, consideration to the fact the interviewees are, in fact, individuals that also interact with various people in numerous other situations. Ostrom draws on the work of Fritz Scharpf to explain how individual “private preferences” are “neutralized” in employment relations (Ostrom, 2005, p. 38). Accepting that respondents are involved in employment relations (i.e., corporate actors) and utilizing the case study approach are central to avoid problems encountered by linking hierarchical data at different levels. This investigation did not look at the effects of macro interventions at the level of the MFI. The focus was on interorganizational behaviors related to capital flow, all at the same organizational level (Newton & Llosa, 2010).

Interviewees were corporate actors interacting with other participants in MITAF; however, linkages of actors with other environments/settings were not ignored in this investigation (Ostrom, 2005). People in MITAF organizations interact with others in settings beyond employment where their individual preferences are shaped and consequently shape deals that result in MITAF organizations action/interaction. For purposes of this investigation, the employment setting was the context for the people interviewed. The neutralizing of private preferences in employment settings is explained by Herbert Simon as decisions people make as participants in organizations. In other words, he says people set-aside private preferences when making decisions, in employment settings, in deference to organizational preference, such as policies and procedures. Simon (1996) identified organizational performance resulting from the self-sacrificing work of people as central to certain business activities being conducted through organizations and not markets. As Simon explains, views of these people were influenced by the organization's perspective. As such, in this investigation interviewees' perceptions, beliefs, and values were considered to be those of the employer corporate-actor, acknowledging that there were factors that distinguished the interviewees as shapers of implemented corporate policies, such as culture factors (H. A. Simon, 1997). The apex, MFIs, and donors represent rich, diverse organizational cultures and staffs from different regions of the world.

3.1.2.1 Donors: MITAF Investment Committee

In this study, donors were the source of capital. Donors comprised the Investment Committee (IC), which functioned like a nonprofit organization's board of trustees. Donors also operated as corporate investors with respective organizational interests. The three types of donor institutions are described in this section. Having organizational profiles of the subjects advances the understanding of behaviors examined in this investigation.

The German Development Bank (KfW) is considered both a bilateral donor and financial development bank (2009; Easterly & Pfutze, 2008). On one hand, KfW operates based on many of the same principles as a development, or international, bank (type of multilateral donor) by investing in nongovernmental entities like microfinance institutions (Latortue et al., 2007). On the other hand, it is exclusively associated with a particular country, Germany; therefore, it is considered as bilateral. The German Development Bank ranks among the top five funders in SSA based on amount of foreign aid. These top five provide 50% of the microfinance funding in SSA (2009). In addition, KfW committed and provided more capital to MITAF than each of the other IC members.

Two MITAF donors are part of the United Nations (UN) family. The United Nations Development Program (UNDP) and United Nations Capital Development Fund (UNCDF) are multi-lateral donors (2002). The UN selected UNCDF as the focal point of its system's activities for the 2005 International Year of Microfinance. MITAF Sierra Leone is part of a UNCDF initiative in Africa, "Building Inclusive Financial Sectors in Africa" (UNCDF, 2004a, 2008). UNDP and UNCDF are financed by numerous nations and UN members.

The final MITAF donor, Cordaid, is an Amsterdam based international non-governmental organization (INGO) with multiple development goals. Cordaid's in-house microfinance expertise is somewhat unique among INGOs (CGAP, 2004; Latortue et al., 2007). The relation with its government is a noteworthy attribute as the Dutch are ranked among the top nations investing in microfinance and historically allocate extraordinary amounts of bilateral assistance through nongovernmental organizations (CGAP, 2004; Derksen & Verhallen, 2008). One survey reports that Cordaid invested in more SSA countries than KfW in 2008 (CGAP, 2004). In addition, Cordaid is a religious, or faith-based, INGO. This faith-based aspect represents a unique and remarkable attribute (Derksen & Verhallen, 2008). A recent survey reports that U.S. religious congregations alone contributed an estimated $4.5 billion to U.S. based international relief and development efforts in 2008 (Triplett, 2010). This amount approximates total annual investment in microfinance and may be an indicator of the potential importance of this faith component.

3.1.2.2 Apex: Technical Service Provider

There was an intriguing operational link in this investigation between donors and microfinance institutions: the apex organization. The purpose of MITAF was the establishment of an inclusive financial system to broaden access to financial services to the poor (UNCDF, 2004b). Important to a financial system are meso level[20] organizations including customer credit reporting agencies, MFI rating agencies, and other second tier entities (CGAP, 2006). Apex organizations are one type of second tier meso mechanism.

Apex organizations have various organizational structures. They serve as channels of funding and/or technical support providers to numerous MFIs in a single nation (CGAP, 2006; Duflos & El-Zoghbi, 2010). The MITAF apex was formed in 2003 as an administrative mechanism for this UNCDF *project.* The project structure was used rather than a distinct *corporate entity*. This was a conscious decision, in collaboration with the Government of Sierra Leone, to expedite the project's launch (UNCDF, 2004b). Creating a corporate entity would have resulted in a distinct ownership structure, accountability lines, and different considerations in designing capital flow. Equally as importantly to this investigation, organizers believed it would have taken at least six months to complete the Sierra Leone bureaucratic process to form a corporate entity, which was deemed an unacceptable delay. The apex was charged with both MFI sector capacity building (e.g., providing technical assistance to MFIs in business plan preparation for submitting funding proposals to the IC) and a financial intermediary role between donors and MFIs. Regardless of the organizational structure, these are typical roles for apexes (Gonzalez-Vega, 1998). The financial intermediary role can be viewed as the *broker* in investment banking institutions, as discussed in chapter one. MITAF serves as a market to reduce the transaction costs of connecting capital-providers and capital-seekers. The apex facilitates transactions without taking legal title to the financial *claims*. This role has been emphasized as an important distinction of the MITAF structure. The apex involvement in capital flow varied in important ways as it performed numerous tasks.

The Program Support Document (PSD) provided a detailed and integral role for the apex in MITAF (UNCDF, 2004b). The IC selected the technical service provider to manage the apex (CGAP, 2006; UNCDF, 2004b). The apex was explicitly charged with achieving the projects' outcomes, including MFIs operating according to minimum financial sustainability standards and considerably increasing customer outreach (UNCDF, 2004b). To a great extent, the apex/TSP's performance was measured based on these and other project outcome targets specified in the PSD.

---

[20] Meso level is the middle level of a financial sector. The micro level includes financial intermediaries and other financial service providers. The macro level of a financial sector is comprised of government policies and processes.

Studies reported a mushrooming of apex organization use in MFI sector initiatives throughout the world during the period of this investigation. Though reports indicate mixed performance results, the TSP role was underscored as central to the success of apexes (CGAP, 2006; Duflos & El-Zoghbi, 2010; Levy, 2002). Of all its managerial functions, the most important may be the selection of MFIs considered for investment by donors (Levy, 2002; UNCDF, 2004b).

3.1.2.3 Microfinance institutions

Chapter one provided a detailed introduction to microfinance institutions (MFIs) as embedded in the broad context of financial intermediaries. MFIs provide the basic services of commercial banks: deposit accounts, loans, transaction services (e.g., ATM cards). Half of the MITAF MFIs offered these basic services. The primary distinction between MFIs participating in MITAF is whether or not they accepted non-collateral deposits.[21]

The main function of the financial services sector in Sierra Leone's informal economy is providing deposit and loan products. Sierra Leone MFI's are portrayed as operating in the informal economy community. Many MITAF MFIs, considered the best prospect for providing leadership to the nation's MFIs, did not easily fit into the commercial bank legal framework that permits institutions to accept customer deposits. Organizing a commercial bank in Sierra Leone is difficult primarily because of high capital requirements. One MFI partner that met these requirements was ProCredit. ProCredit's target market was the same as MITAF, both of which sought to increase financial service access. Four MITAF members were formed as community banks, which were also technically organized as commercial banks; they resembled community credit unions with residents of the chiefdoms as shareholders. ProCredit, in contrast, was substantially owned by an international holding company and MITAF Investment Committee member KfW had over a 20% stake. This powerful, resourceful partnership was crucial in ProCredit's satisfaction of commercial bank capital requirement regulations. Community banks were initiated by Sierra Leone's central bank, Bank of Sierra Leone. This included capitalization

[21] Collateral deposits are MFI customer accounts used as collateral for loans.

assistance in the form of loans with very favorable terms, and waiver of some capital requirements in the commercial bank legal framework. Many MFIs in MITAF were established without the powerful, resourceful relationships of ProCredit and the community banks. Consequently, a large portion of MFI partners were similar to finance companies, providing loan products only (no deposit accounts).

MFIs in MITAF are distinguished by four characteristics: structure, domicile origin, geography, and the year of MITAF capital commitment. For example, structure is characterized by such attributes as domestic, international, urban, northern, southern, NGO, and community bank. Many MFI partners began focusing on lending as one of several programs offered by an NGO. For instance, World Hope International has been registered in Sierra Leone since 1999 and offers education and health programs; microfinance was added in 2002 (Hope Micro). Another example is the American Refugee Committee (ARC). ARC registered in 2000 and sponsors various programs on HIV awareness and skill development. The ARC microfinance initiative began as a program in 2001 and reorganized as a separate institution in 2005 (Finance Salone). Another example, the Grassroots Gender Empowerment Movement (GGEM), is a domestic NGO involved in community development, networking services, and micro-credit. In January 2008 its microfinance operation was reorganized to operate in a separate department with separate financial accounting; however, it remains part of the NGO. This structural distinction at GGEM is an important illustration of efforts to satisfy MITAF's emphasis on clarity and transparency in MFI operations, while remaining part of the NGO structure.

The Community Empowerment and Development Agency (CEDA) story gives a sense of the organizational roots shared by many MITAF MFIs. CEDA began as a program, Lunia Agriculture and Rural Development project, focused on agricultural activities and gender empowerment in the southern districts of Bo and Kenema. After restructuring and increasing institutional capacity to serve more people and communities, the current name was adopted and in 1994 it was licensed as a national NGO. CEDA developed a program for micro-credit with support from the government's Social Action for Poverty Alleviation. As of December 31, 2009 CEDA had over 6,300 borrowers, ranking among the top five in MITAF MFIs for clients served. The expectation and belief was that CEDA had capacity to significantly grow the number of clients served.

MFIs in MITAF have diverse backgrounds, structures, and product portfolios to serve those with limited access to financial services. One shared characteristic was the espoused view of MITAF, MFIs as partners (MITAF, 2006). This eclectic collection of MITAF MFIs (e.g., NGOs, commercial banks, community banks), selected to be developed as leaders of the MFI sector, often presented challenges to MITAF that could not be effectively addressed with a one size fits all approach. The diversity and associated challenges were reflected in organizational behaviors and capital flow. The diversity and associated challenges, along with complexity introduced by interactions with donors and the apex, were examined utilizing the IAD framework.

3.2 THE IAD FRAMEWORK

The IAD framework serves organizational analysis by accommodating numerous, varied theories, such as grounded theory. The framework presents patterns of relationships that can be analyzed at any number of points in its structure. Nobel Laureate Elinor Ostrom (2005) explains that a *framework* is used to identify both the components to be considered in the study of an institution and the questions explored. As the next section explains, IAD accomplishes this by providing a number of *general variables* that can be used to analyze an empirical setting. The general variables, exogenous (environmental) variables, influence the configuration of the action arena where interactions produce outcomes. These variables represent *implicit assumptions,* how relationships are ordered; attributes of the world; and the nature of the setting where the MITAF case functions. The specific variables of a study are unique to that case and are set forth below for this investigation.

3.2.1 IAD components

Theories are selected that narrow in on certain parts of the IAD framework to explain relationship patterns (Ostrom, 2005). Research on foreign capital processes cannot draw exclusively on one discipline as this would significantly narrow the influence of other variables.

Public administration, organizational theory, economics, history and development studies have vital theoretical constructs pertinent to understand relationships between organizational behavior and donor capital flow characteristics (Ostrom, Gibson, Shivakumar, & Andersson, 2002). For example, theories of path dependency, development dependency, and resource dependency, along with institutional and organizational theories are used in this study to understand how behaviors are linked to capital volatility and to appreciate how interorganizational activities (MFIs, donors, apex organizations) are shaped by history, context, and tradition.

The IAD framework is used to investigate phenomena in a variety of empirical contexts. For instance, an evaluation conducted for the Swedish International Development Agency explored how development corporation incentives affect sustainable outcomes in underdeveloped states (Ostrom et al., 2002). Findings from this and other research were used to select environmental variables and other parameters of this investigation. This included incorporating the implicit assumptions of the IAD framework, which are grounded in theoretical and empirical analysis, to guide this investigation. IAD is robust and effectively assists analysis of complex phenomena. In this investigation it provided basic structure to the complex array of considerations. Figure 2 illustrates the IAD framework.

The basic structure of the examination acknowledged the integral role played by three environmental variables: MFI regulation, informal economy, the Rules. These variables represent implicit assumptions, mainly how relationships are ordered; attributes of the world; and the nature of the setting. Simon (1996) argues that environmental factors play an important shaping role in work to reconcile desired and actual states, while being primarily responsible for the complexity observed in participant action/interactions. These three environmental variables have essential, distinctive attributes, properties. Properties are essential, distinctive attributes of concepts and categories. The properties and attributes of environmental variables significantly affected organizations interacting in MITAF.

The principal component of the IAD framework is the action arena, which includes two subassemblies of variables: action situation and participants. The *action situation* subassembly is the set of interactions and sphere where the actors of the *participants subassembly* interact. As such, the action situation involves several components, as detailed in Figure 2. Action situation variables are set of *actors* (participants), *positions* (occupied by actors), *outcomes*, *actions and linkages* to outcomes, *control* (over the function of linkages), *information* available to participants, and *costs and benefits* assigned to outcomes. “Situations are structured

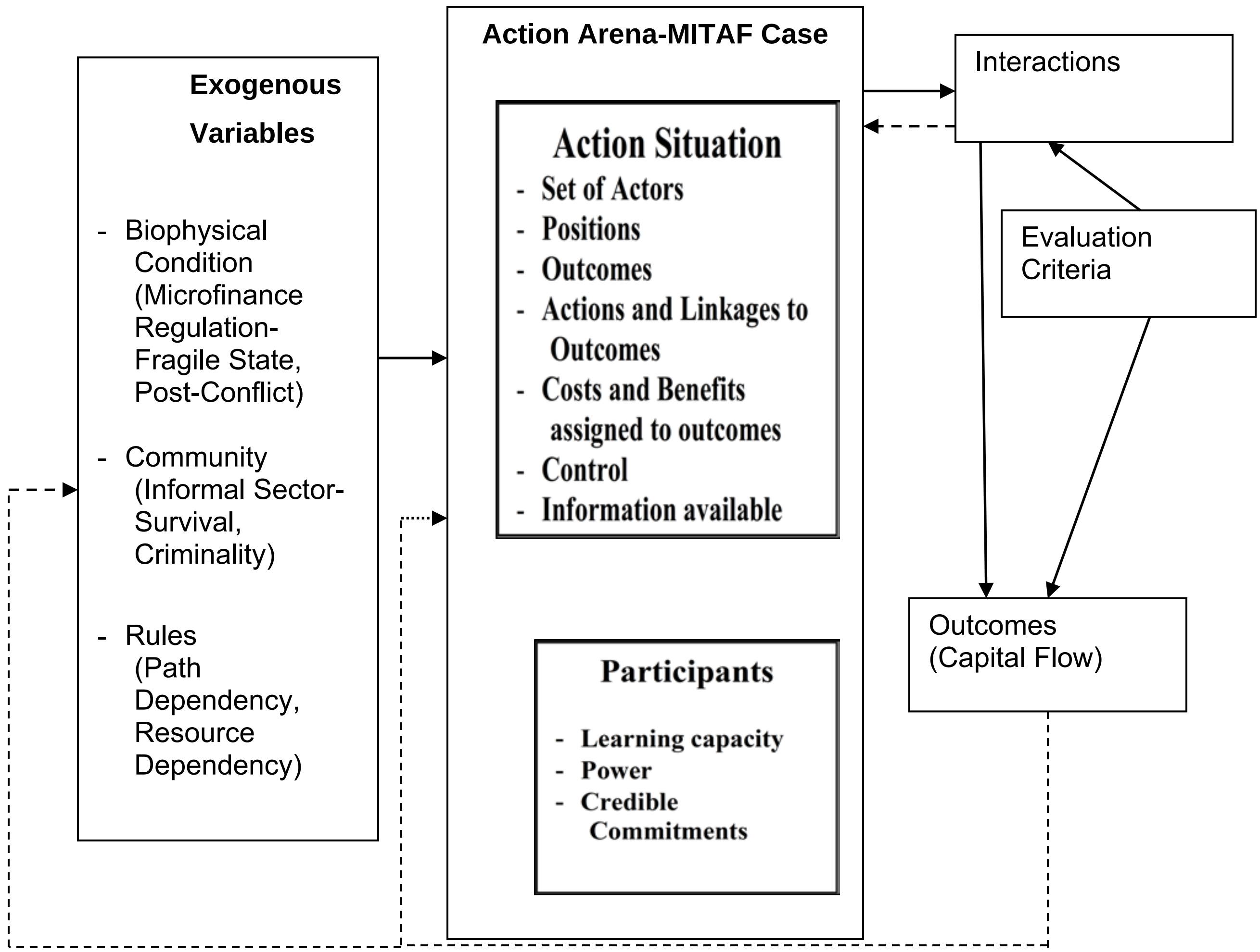


Figure 2: Institutional Analysis and Development (IAD) framework.

interactions among participants where individuals must make decisions about actions that affect them and others" (Ostrom et al., 2002, p. 23).

This investigation utilized a case study to investigate linkages of organizational behaviour and capital flow. The IAD action arena was the equivalent of the case study, the space where one or more donors, a MFI, and the apex (technical service provider) interacted. The action situation was represented by the agreement between a donor(s) and a MFI, negotiated by the apex, prescribing certain conditions and terms of payment for capital disbursements. This agreement is referred to as a *deal*. The deal is the unit of analysis. The components of the action situations, such as actors, positions, and outcomes were stipulated in a performance based agreement, the Programme Support Document, and other official documents. Participants were MITAF actors involved in the deal and each had particular attributes: learning capacity, power, and credible commitments. Interactions in the IAD framework are actions/interactions of the actors that explicate the working rules, or theories-in-use. Working rules govern behaviour in an action arena shaped by environmental variables. Capital flow was the outcome of behaviour, which was valued by volatility measures and MFI condition at disbursement. Feedback from outcomes to the action arena and exogenous variables has the potential to change these over time. The aim of this investigation is to identify and examine linkages, or correlations, between interactions and outcome characteristics. The following is a discussion of specific environmental variables that shaped outcome producing interactions in the MITAF case.

3.2.2 IAD environmental variables

The MITAF case was an action arena where capital investment deals were negotiated, and organizations acted/interacted to implement the deal. The case was shaped by three outside factors: MFI regulation, the informal economy, and the Rules. The shaping effect of MFI regulation in Sierra Leone as a public good was understood in terms of its properties as a post-conflict and fragile state. The community environmental variable, informal economy, was the location of this study. Literature defines the informal economy as all economic activity not subject to government regulation or taxation. It typically involves self-employed people and households. In this investigation, the informal economy was a by-product of numerous interrelated events, such as colonialism and the Sierra Leone civil war. These rules involved *boundaries* and *choices*.[22] It was assumed that rules were relatively more pliable than the two other exogenous variables, in terms of responsiveness to participants' actions/interactions and the resulting outcomes. MFIs, donors, and the apex (technical service provider) are better positioned to adjust the rules of interaction and the flow of capital than to adjust microfinance regulation or the informal economy (March, 1999; Ostrom, 2005). The discussion of rules drew on theories and empirical data from the literature to explain how they shaped the arena where

[22] Boundary rules involve participant entry and exit relative to MITAF. Choice rules affect the power in capital investment deals (IAD action situations) and its distribution. Both will be discussed in greater detail later.

participants interacted. Organizational behavior is about decision making and capital characteristics are about capital flow volatility. Rules, espoused and in-use, frame what is permitted, forbidden, and required in behavior and capital flow.

3.2.2.1 Bio-physical condition: MFI regulation

The MITAF project intended to create a pro-poor financial sector. The literature explains that, by its very nature, the financial sector is a legal and regulatory framework infused by capital in order to create robust institutions and reliably provide the public financial services (Armendariz de Aghion & Morduch, 2005; Krugman, 2009; Meagher et al., 2006). This investigation viewed the state as using microfinance regulation to influence and shape the interactions between microfinance institutions, donors and the apex organization (technical service provider). Microfinance regulation can be viewed as a rule in the framework (Ostrom, 2005; Ostrom, et al., 2002). On the other hand, when considering the characteristics of the good influencing the MITAF case, focusing on public good attributes of microfinance regulation allowed for it to be considered as an IAD Biophysical Condition (Ostrom, 2005; Ostrom et al., 2002; Joseph Stiglitz, 1993). A key function included in the role of a regulatory institution is monitoring risk and management (Meagher et al., 2006; Joseph Stiglitz, 1993). The monitoring attribute provides the MFI regulator access to potentially valuable and damaging information about MFIs. This threat of disclosure, backed by its legitimacy as a public organization, is used by governments regulating MFIs to provide identity to the sector in terms of social acceptance and expected behaviors. As a farmer plants in soil with certain climatic conditions, a MFI operates in a specific publicly created financial sector framework. The institutional strength and specifics can vary greatly, yet the regulatory framework's centrality is particularly true in a nation's financial sector.

The IRIS Center analyzed key characteristics of MFI regulatory frameworks in seven nations (Meagher et al., 2006). The research found that MFI regulation takes the form represented by a place on a spectrum. On one end of the spectrum is *state ownership* of MFIs and at the other end *unlimited market entry* with *monitoring* provided by market forces. These researchers and others reported that outreach, sustainable growth, and financial constraints are impacted by the location of MFI regulation on that spectrum (Meagher et al., 2006; Joseph Stiglitz, 1993).

Researchers have found that limited data availability has constrained analysis on the impact of regulation on MFI performance, or interaction with capital markets in this investigation (Hartarska, 2005). Valentina Hartarska (2009) assembled data on 108 MFIs serving 30 nations to analyze the impact of various governance mechanisms, including regulation, on MFI outreach (i.e., number of active borrowers) and return on assets. Although the model excluded findings on the effect of regulation on financial performance, the analysis found there is no relationship between regulation and outreach. Hartarska's work evidences the mixed results of limited research to-date and speaks to the need for more studies of these important linkages.

MFI regulation in Sierra Leone, viewed as a public good,[23] was understood in terms of two properties: post-conflict and fragile state. The post-conflict context required examining MFI regulation with questions of imperatives and preferences for providing a pro-poor financial sector. The fragile-state infrastructure considered measures of governance, political will and commitment, as well as propensity to resume conflict. The regulatory function, operating as a public good, provided definition and identity to MFIs because of its legitimacy in monitoring MFI solvency and management.

Insight into the post-conflict property is provided by Karen Doyle's work (1998), considered by many as the foremost research on practitioner experience in post-conflict nations. Perhaps the most important aspect of her study for this investigation is the exploration of practitioners' considerations of linkages between the post-conflict setting and services provided by MFIs. The study primarily drew on 16 MFI initiatives operating in the SSA nations of Rwanda and Mozambique, plus Cambodia and Bosnia-Herzegovina. Also, data triangulation was provided by the collection of statements and material from the SSA nations of Angola, Uganda, and Sierra Leone, in addition to Tajikistan and Albania. The programs in the study, all implemented in the aftermath of war, demonstrated that MFIs have few environmental imperatives. Doyle also found that donors supportive of efforts in post-conflict environments are willing to accept the associated risks (e.g., conflict, instability, destruction). Moreover, she asserts donors are coming to understand how imperative it is for them to be intimately involved in post-conflict settings. Her assertion underscores the importance and value of this investigation's focus on years when conflict frequently reignites and foreign aid is wasted or

[23] Public goods are products and services normally considered to be provided by government or public organizations. Public goods attributes are non-rival (one person's use does not reduce benefits to others- no rivalry for benefits) and nonexclusive (one person cannot be prevented from enjoying the benefit by another's use).

maximized. Doyle's work and that of others point to the unique properties of post-conflict microfinance sectors and attributes of available capital during the crucial decade after peace is achieved (Bigombe et al., 2000; Clarke, 2006; Collier and Hoeffler, 2002; Smillie 2009).

Donors and regulators of Sierra Leone MFIs came together to create the MITAF project approximately two years after reaching a peace agreement as a key policy intervention to restore the economy. The Programme Support Document (Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone (2004-2009), 2004), which created the project, describes the MFI operating environment as "comparable to other post conflict situations" (UNCDF, 2004b, p. 2). Research has demonstrated that one key "policy-dependent" conflict risk factor is absence of economic opportunities (Bigombe et al., 2000, p. 326). Although research found that minimal political and financial infrastructure was required for operations, it was emphasized that other conditions must be considered to ensure MFIs operate beyond the immediate emergency and rebuilding stage to the stage of operating sustainable solutions (Doyle, 1998; Manalo, 2003). Microfinance regulation in the form of laws and institutions is the preferred method of this institutionalization.

Laws and institutions struggle in fragile state nations. The term fragile state does not have a universal definition, nor is the status generally seen as a dichotomy. In the parlance of donor-participants in the MITAF case, it seems that "fragile state" and "poor performer" were synonymous for a time leading up to 2001. The Organization for Economic Cooperation and Development (OECD) used "poor performance" to address states lacking the capacity to provide a political space or deliver public services, as well as those countries that have capacity, but lack commitment. OECD changed the discourse by making a clearer distinction between capacity and commitment by using the expression "difficult partnerships" (Tommasoli & Bergeron, 2001). The absence of ownership and credible commitment to effective policies, including implementation, are key characteristics of nations characterized as difficult partnerships. In the often cited work of Victoria Levin and David Dollar (2005) for a country to be considered among the "difficult partnerships" (DPC) two criteria must be satisfied: low-income in accordance to per capital GNP classifications of the World Bank, and ranking in the lower two quintiles of the Country Policy and Institutional Assessment (CPIA). The important distinction from the earlier OECD definition is the absence of an explicit consideration of a nation's commitment to effective policies. Regardless of the prevailing definition or scale of measurement, Sierra Leone has been generally considered a "fragile state."

In summary, state regulation of microfinance activities plays an important role in shaping how actors interact to provide capital from donors to microfinance institutions. Regulatory action takes many forms including the threat of direct intervention, MFI ownership, and providing information about sector and institution performance. Available research on regulation in post-conflict fragile state settings demonstrates the robust shaping capacity of MFI regulation on capital delivery mechanisms, such as the MITAF case. For example, while market capital tends to focus more on incentives other than institutional strength, donor capital has demonstrated a predisposition toward developing nations with stronger and improving government institutions.

3.2.2.2 Community: Informal economy

The MITAF case as a space of negotiating deals was also shaped by the informal economy. A very large segment of Sierra Leone's economy is considered informal. The informal economy was understood in this investigation by its properties of *survival* and *criminality*. The people participating in the informal economy are seeking not only to *survive* physically, but also to cope with the many social factors affecting their livelihoods. These factors include norms of behavior and asset, income, and opportunity equality. The *criminality* property considers the tenuous nature of the informal economy and the potential for illicit activities to reach very destructive levels with international implications. Sierra Leone's leaders are focused on the informal economy to provide licit, viable employment in the fight against poverty and the propensities toward criminality.

Emeritus professor and anthropologist Keith Hart is generally credited with first using the phrase "informal sector" in academic literature. In his research on Africa the term is used primarily to reference self-employment (Gerxhani, 2004). Sir Fazle Hasan Abed, BRAC founder, underscores the role of self-employment in elucidating the linkage to microfinance. He explains that livelihoods and augmenting household income in the form of microenterprises are very often the focus of a pro-poor MFI. The vast majority of microfinance customers do not move beyond household employment (Smillie, 2009). Dwight Perkins and his colleagues also hold this view regarding employment impact, explaining that personal enterprises normally benefit the owner and a few family members (Perkins et al., 2006).

Given that microfinance is integral to the poor experiencing improved outcomes from economic exchanges, such as through personal enterprises, MFIs are embedded in the informal sector. The informal sector has been approached in different ways throughout the literature. John Rapley refers to Africa's empirical data and draws on thinking that emerged in the 1990s, questioning both the development agenda and the idea of development itself. Rapley (2007) describes how postdevelopment thinkers assert development is never about improving the lives of citizens; rather development is intended to surface people from the informal sector to be taxed. They argue the result is consolidation of government control over people. The informal sector is a substantial economic and social space in developing countries like Sierra Leone.

As Rapley and others point out, the persistence of the informal sector is in part due to weak incentives provided by a formal economy. In numerous African countries the ability of the state to govern beyond the borders of the capital city is critically weak. This includes the ability to provide basic services to the rural areas that provide the most resources to the state. The literature describes the informal sector serving the formal economy at below value wages and prices. Informal sector participants also generally perceive government services to be insufficient or inequitably provided in favor of higher income earners. As a result, scores of citizens in numerous fragile African states avoid the government as much as possible through tax evasion, illegal trade, and a general disregard of the formal law—operating outside the formal economy (Cilliers, 2004; Rapley, 2007; Schneider, 2002).

Another approach to understanding the informal sector builds on the above views of labor markets and small firms in a functioning local economy. Bottom of the pyramid (BOP), or lower-income market, are labels used by some researchers of multinational corporations in developing nations (Kolk & Van Tulder, 2006; SadreGhazi & Duysters, 2009). These researchers analyze market approaches to development where people are characterized as producers or consumers rather than by level of daily income. Beyond corporate social responsibility, multinational corporations are considering lower-income markets due to slowing growth and increased competition in industrialized nations (D'Innocenzio, 2011). The Africa BOP market has been estimated to be approximately $429 billion USD and includes over 485 million people. Research found that multinational corporations can transfer capital and technology to these vast markets with the potential for great productivity at lower cost. BOP research of informal economies connects the unofficial and the official segments of economies in developing nations.

Austrian economist Friedrich Schneider prepared a frequently cited work using a definition involving economic activities that are unregistered, yet contribute to determining official GNP (Schneider, 2002). Looking at economic activity in African countries, including Sierra Leone's West African neighbors of Cote D'Ivoire, Ghana, Benin, and Burkina Faso, Schneider reports that the average size of the informal sector was 42% of GNP from 1999 to 2000. He labels this a "quite large" informal economy (pp. 5, 6). Schneider's assessment can be compared to the International Monetary Fund's interpretation of Sierra Leone's informal economy as “a large volume of activity” (IMF, 2009a). Economic exchange in Sierra Leone to a very large extent occurs in the informal sector (IMF, 2009b; UNCDF, 2004b). In this investigation two properties were particularly important to how this informal economy shaped the MITAF case: survival incentive, and criminality.

The vast body of knowledge on the informal sector from a global cross-country perspective notes that the most salient distinction between developed and developing nations involves is the theory of “survival.” In other words, survival is central in decisions to participate in the informal sector of developing nations (Gerxhani, 2004; Seitz, 2008). This sociological aspect of explaining the informal sector understandably has economic implications.

The “social relations of household production” may not be conducive to market incentives that motivate production beyond consumption (Leys, 1996, pp. 135, 140, 141); however, it is a vital mechanism for survival in many SSA societies where agriculture is particularly important (Manalo, 2003). Survival explanations, often referred to by economists as peasant rationality, underscore the *consumption* aspect of households more than the *production* aspect. Economists have come to find value in the survival rationale by analyzing agricultural arrangements, such as sharecropping. Typically economists have been highly critical of such arrangements due to insufficient production incentives. The value of survival behavior, in these arrangements, is a favorable combination of the “pure wage contract” where the land owner bears all the risk, rather than “pure rental contract,” where risk is assume by the worker (Joseph Stiglitz, 1988, pp. 115-117). Poor people avoid risk since they vacillate between survival and catastrophe (Allen, 2007). The place of microfinance in this theory of behavior in the informal sector may be one of assisting people in managing risk concerns through savings and credit products (Joseph Stiglitz, 1988).

Still, developed and developing nations converge on most of the theories explaining the presence and increased activity in the informal sector, which includes criminality (Escobar, 1995; Gerxhani, 2004; Karlinger, 2009; Seitz, 2008). Aristotle said, “Poverty is the parent of revolution and crime” (Aristotle, 1984). Aristotle’s poverty-crime propensity is supported by the work of a seven-member network of African research NGOs. The network researchers concluded that community attributes found in the informal sectors of most African post-conflict fragile states represent a nearly indistinguishable interconnection between licit and illicit activities involving government, business, perpetrators, and violence triggers (Cilliers, 2004).

Identifying and responding to capital flow volatility effects in funding MFIs can assist efforts to advance licit, labor intensive employment and enterprise activities that can thwart propensities to resume conflict or engage in illegal activity in order to survive.

The potentially destructive impact, nationally and internationally, of this theoretical convergent point of criminality theory is implicated in a multi-year research project conducted by Pierre_Arnaud Chouvy and Laurent R. Laniel (2007). This study sheds light on the darker aspects of the informal sector. Part of the analysis examines the complex linkages between illicit agricultural production and armed conflict within underdeveloped states. West Africa, where Sierra Leone is located, is considered one of the main narcotic-producing areas on the globe (Karlinger, 2009). Cannabis,[24] used in marijuana and hashish, is reported to be widely produced in Africa; unfortunately, academic work on the cannabis economy is not robust. An important take away from this work is the complex and extensive consequences associated with this illicit activity, including environment and human health degradation, as well as socio-economic issues of maintaining peace and perpetuation of the elitist status quo.

Probably the most notorious connection between Sierra Leone's informal economy and illicit trade is the diamond industry. Officially the diamond trade makes up 50% of exports from the country (IMF, 2009a, p. 22). *Informally,* according to the IMF, "External transactions are characterized by a large volume of activity in the informal sector, principally diamond smuggling…Estimates of smuggled imports and exports, in particular diamonds, are also not available" (IMF, 2009a Informational Annex, p. 11). Global Witness[25] and others report substantial illegal diamond trading (BBC, 2009; Momo et al., 2011). Although substantial, income is apparently inequitably distributed in illicit informal activities.

---

[24] According to the World Health Organization, "Cannabis is by far the most widely cultivated, trafficked and abused illicit drug. Half of all drug seizures worldwide are cannabis seizures. The geographical spread of those seizures is also global, covering practically every country of the world. About 147 million people, 2.5% of the world population, consume cannabis (annual prevalence) compared with 0.2% consuming cocaine and 0.2% consuming opiates." In addition, research reports damage to health, including the fact that cannabis "impairs cognitive development (capabilities of learning), including associative processes; free recall of previously learned items is often impaired when cannabis is used both during learning and recall periods; airway injury, lung inflammation, and impaired pulmonary defense against infection from persistent cannabis consumption over prolonged periods." http://www.who.int/substance_abuse/facts/cannabis/en/, accessed February 16, 2010.

[25] Global Witness has served as a key member of the Kimberley Process Certification Scheme employed in Sierra Leone.

This inequality aspect is an element of measuring the progress of development efforts and provides insight into human behaviour and potential. Dudly Seers in his seminal 1972 article, “What are We Trying to Measure?,” formed three basic questions that have been used repeatedly in the debate about measuring development: “What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality?” (Seers, 1972). In developing these questions Seers explains the importance of “the realization of the potential of human personality” (p. 21). He contends that equality is valuable both as an end and a means of economic development. Interactions in MITAF that produced capital flow to MFIs were shaped by an environment where people worked to improve their lifestyle by leveraging their potential. Capital provided by MITAF to MFIs was a strategy of licit activities that had positive wealth distribution effects.

3.2.2.3 Rules

Rules frame actor interactions of actors, such as rights and responsibilities of participating in a capital investment deal. The MITAF case was shaped by rules that linked participant perceptions and responses relative to both espoused theories and working theories (theories-in-use). What actors believed, valued, and perceived, along with their historical experiences, were central to rules in effect (working theories). The centrality of participant perceptions of and responses to espoused theories and working theories is embedded in a particular public policy perspective. Public policy administration is viewed as the *actual* expression of policy and speaks to *espoused* theories’ relevance in attacking societal problems. Moreover, rules are viewed in terms of characteristics that form boundaries and explain choice. Research consistently finds that the absence of these two organizational rule categories contributes to poor performance (Ostrom, 2005).

Capital volatility in this investigation was determined by participant interactions. Path dependency theorists teach that the *outcome* of interactions within an environment is a byproduct of both the present environment and the previous environment (history). This historical path shapes possible outcomes (March, 1999). Nobel Laureate Douglass North (1990) clarifies path dependence not as an inevitability, but rather explains action-choice linkages over history. He posits that past constraints, such as colonialism, narrow subsequent choice options and reflect the reinforcing attribute of IAD framework exogenous (environment) variables, including rules.

The literature describes a colonial past connected to modern aid. In the highly regarded work of economist Alberto Alesina and former World Bank economist David Dollar, bilateral donors' aid allocation behavior is explained (Alesina & Dollar, 2000). Their findings reflect the general belief that donor nations tend to provide more aid to former colonies than to other countries. Moreover, the colonial relationship is strong and contributes more robust explanations than variable such as quality of institutions, economic policies of the recipient, and whether the nation is a democracy.

This investigation was interested in power relative to r*ules* involving the organizational control over aid provision (i.e., capital flow). According to literature, the degree of one organization's dependence on another is dependent on the extent to which resource control is concentrated. Of critical importance to the degree of control are alternatives available to the focal organization. In this investigation, the focal organization can be the MFI, apex, or the donor depending on interaction particulars. The understanding of power in dependency theory, including exchange relationships, is founded in the work of Richard Emerson and others that portrays dependence as the basis of power (see Emerson in Cook et al., 2005; Pfeffer & Salancik, 1978; also see Emerson in Scott & Davis, 2003).

The seminal work of Emeritus Professor J. Kenneth Benson (1975), University of Missouri-Columbia frames the resource dependency theory discussion,

> [I]nteractions must be explained ultimately at the level of resource acquisition…a system resource view of organizations…Such an orientation becomes, for decision makers, an operational definition of the purposes of the organization…responsible largely for maintaining or expanding this established organizational machine" (p. 231).

Benson's (1975) theoretical framework of interorganizational interaction was created from empirical research of *exchanges* between human service nonprofit organizations. He explains that deep methods of analysis center on the organizations' *actions* to obtain an adequate level of the "most fundamental" resources for work, namely "money and authority" (p. 231). He contended that missions and visions take a subordinate position as an understood assumption that can be retrieved as a legitimization mechanism for continued operations. Benson and others suggest that the acquisition and maintenance of reliable and sufficient sources of capital and authority are the primary orientation of organizational decision makers (Benson, 1975; Froelich, 1999).

Benson (1975) emphasizes a perspective that clarifies the *linkage* between *resource dependency* at the organizational level and *societal* organizational matters, such as dependency theory. According to Benson, the basis for between-organization power differences is partially accounted for by the *linkage* of organizations to society-at-large. This view can be seen both in the work of Strauss and in microfinance literature (see Strauss in A. E. Clarke & Friese, 2007; Smillie, 2009). Empirically, many societies in Africa are characterized by households with husbands working in the nation's *center* region and wives raising children in the *periphery* with inadequate resources. At times some wives provide sex to the landlord in lieu of paying rent, a brutal reality of *survival* in a vicious market (Bardhan, 1988; Novogratz, 2009; Smillie, 2009). Understanding *resource dependency* between organizations, according to Benson (1975), requires both "the larger pattern of societal dominance," such as dependency theory at the national level, and the linkage with *path dependency* (p. 233).

Nancy Jurik and Julie Cowgill (2005) conducted a case study of a training and micro lending program offered by a nonprofit community organization which was struggling with resource dependency. The researchers recorded daily struggles of daily providing client services while also trying to secure capital for operations and lending. Competition for limited capital investment was the most pressing challenge, according to organization staff. It was felt that the pressing challenge compelled them to trade quality for rapidly achievable outcome measures, which would help to impression-manage investors. The espoused focus on poor and very low-income people by government investors, combined with accountability measures of client success and high repayment rates, created an environment where organizational beliefs acquiesced to the capital infusion imperative.

The literature suggests that when one or more actors are resource dependent on another actor there is a propensity for homogenization that renders irrelevant the rich, unique, organizational characteristics of dependent actors (Carroll & Steane, 2002; Froelich, 1999). Rules in resource dependent relationships can be explained by natural system organization theories that give place to fallible people (Scott & Davis, 2003). Regardless of using rules as institutions or an informal framing of human interactions, Deng's renowned statement on the use of *power* to achieve economic development illustrates the linkage and persistence of imperialism. "It does not matter if the cat is black or white, as long as it catches the mice" (Collier, Dollar, & Stern, 2000, p. 6 n. 4).[26] As long as more powerful actors are able to exploit resources of others, the exact mechanism—*colonialism or neocolonialism*—is irrelevant (Easterly, 2006; Said, 1989).

MITAF participants engaged in deals where action decisions were controlled by diverse and sometimes conflicting agendas. Power in MITAF was more complex than donor decisions regarding capital and disbursement conditions. For example, power involved both political interests related to resource distribution and MFI social mission imperatives. Another complicating factor was disbursement pressure involving the foreign aid machinery. Viewing rules from the perspective of foreign aid as investment capital, and also recognizing that organizational behaviour was shaped by resource dependency theory, helped with the investigation of MFI capital investment deals. Analysing years of investment commitment data, including focused interviews, provided important insights to the power relationship between actors and control over capital flows to MFIs. This analysis involved identifying important characteristics of various capital disbursements. It also necessitated connecting these disbursements with certain organizational behaviours, such as institutional strengthening, outreach, sustainable operations, and investment accountability. Perhaps equally important was the linkage between actions and various actor perceptions, beliefs, and explanations.

[26] For example, regardless of "slavery" or "apprenticeships," forced labor is the same. William Wilberforce is renowned for his work to enact the 1807 Abolition Act prohibiting the transatlantic slave trade. On the other hand, British Colonial Office archives back the claim that he actively supported the reintroduction of slavery in Freetown, Sierra Leone using unpaid apprenticeships carrying the threat of imprisonment for attempting to escape (Tomkins, 2010, p. 54).

In sum, actor interactions occurred in a context shaped by environmental variables. Developing a pro-poor financial sector as a capital delivery mechanism to low-income people is, in essence, a public good defined by MFI regulation. The post-conflict context and fragile state institutions defined MFI regulation in Sierra Leone. MFI regulation shaped the space where MITAF participants interacted. MFIs provided services to people primarily operating in the informal economy, which affected participant interactions. Survival and criminality were informal economy properties. Central to shaping interactions were rules defining behaviour that was required, forbidden, and permitted. Path dependency and resource dependency were central to explaining and predicting the shaping effect of rules. Examining behaviour-volatility linkages requires the consideration of interaction shaping variables, such as IAD exogenous variables.

3.3 SUMMARY

This chapter has set forth methods to structure and focus this investigation. Case study methods fit empirical phenomena and multiple data forms. The centrality of microfinance in human development efforts made it an appropriate focus for this investigation. MITAF was selected for its emphasis on serving as an aid capital delivery mechanism and its cast of actors. More importantly, MITAF possessed the phenomenon examined in this investigation: capital volatility. Also, Sierra Leone was an appropriate context because it captured the attention of world microfinance leaders for its unique fit as a model for West Africa. The setting and subjects were placed in the IAD analytic framework to structure the examination. IAD structured environmental factors that prior research was charged with insufficiently considering, and this chapter described the factors selected for investigation. Moreover, capital investment deals involving this setting and these subjects were subjected to rigorous grounded theory analytical procedures and techniques.

A unique, rich view was provided by making sense of linkages between organizational behavior and aid capital volatility utilizing grounded theory methods and approaches. Rich, extensive data were examined from the combination of official documents detailing capital flow and organizational behaviors, as well as, non-intrusive interviews with diverse actors. Concentrating on the micro project level removed a host of other explanations, such as complexity resulting from recipient government processes, and ambiguity of assumptions in macro level analysis. Organizations actions that mutually agreed to desired behaviors, including the disbursement of capital in prescribed amounts and time frames, held the explanations of why capital is volatile. Mutually agreed to performance indicators (e.g., outreach levels and financial sustainability levels) that are consistent with organizational missions can frame disbursement conditions that often fall prey to challenges associated with organizational implementation limitations. The next chapter describes grounded theory procedures and techniques used to collect and analyze data in developing a theory of linkages between organizational behavior and capital flow volatility.

4.0 RESEARCH METHODS: GROUNDED THEORY APPROACH

Chapter four is the second part of the research design and methods used in this investigation to examine interactions associated with capital investment deals. A key challenge in this investigation was accounting for many activities involved in achieving *a prori* MITAF outcomes intended to be mutually supportive. This resulted in examining many linkages to excavate those connecting behavior to capital flow. Consequently, the central aim of this investigation was to find the few central concepts that organize MITAF's many linkages. A few central concepts, rudiments of theory, were excavated and assisted in making sense of the linkages. The central concepts account for much of the variation observed in behavior-volatility linkages. This chapter describes grounded theory procedures and techniques employed in rigorous and credible collection of various data forms, analytic instruments, examination procedures, and techniques.

The chapter begins by explaining how grounded theory accommodated archival data collection and non-intrusive approaches to elicit behavior-volatility linkage explanations directly from actors in their own words, as opposed to imposing a structured survey instrument. This investigation attempted to conform primarily to the grounded theory guidelines and thinking of Anselm Strauss and Juliet Corbin (1998). Initial primary data was derived from *archival documents. Interviews* began very early in the process. The selection of capital investment deals for detailed analysis was guided by an approach consistent with *theoretical sampling* as prescribed by grounded theory methods. Grounded theory approaches and guidelines are generally designed to develop theory utilizing non-intrusive techniques (Dey, 2007). A basic grounded theory tenet is the use of *guidelines* as opposed to firm *rules* for conducting research. Therefore, it is important for a study to specify the guidelines used. These guidelines, as employed in this investigation, are set forth in this chapter.

Next, the chapter describes the analysis process in rich descriptive detail. Early incorporation of interviews after commencing archival analysis allowed early recognition of comparisons and contrasting between documents and interviews, which informed additional data gathering. Utilizing NVivo 8, a computer qualitative analysis system, a hierarchical coding process was employed using *open coding, axial coding,* and *selective coding*. Problems, concerns, incidents, and episodes that appeared to be significant to MITAF actors were identified in the data (phenomenon). The identified phenomena were labeled as *concepts.* Concepts were grouped into categories by employing constant comparison. Thus, categories and related *properties* and *dimensions* were created from the data, as were process movements, ordering, change, and evolution linked to context and conditions. For example, performance based agreements was a *context* of examining behavior and capital flow, and the mid-term evaluation was a *condition* under which MITAF approved and implemented capital investment deals. Subsequent *generative questions* used in data collection were directed by the data and analysis. Identifying and verifying linkages between concepts, and between concepts *and* the associated properties and dimensions, proceeded to *theoretical saturation* to form a substantive theory and ensure data grounding (Hallberg, 2006; Lee, 1999; Strauss, 1987; Strauss & Corbin, 1998). Moreover, empirical linkages embedded in deals were uncovered with the assistance of interviews.

Grounded theory procedures and techniques are considered valuable in methodological literature because of its broad application in numerous organizational issues (Lee, 1999). Grounded theory is primarily used to investigate phenomena that are not sufficiently explained, such as aid capital flow volatility. Grounded theory methodology involves procedures used to analyze the process of capital flow from the point of MITAF Investment Committee approval to the final disbursement of capital, to access by the MFI. Grounded theory approaches were also used to examine values and beliefs that informed action-decisions linked to disbursements. Thus, the process and procedures provided valuable evidenced-based insights on MITAF capital flow characteristics, and organizational decision making linked to capital flow.

4.1 DATA COLLECTION

Investigating past human behavior to understand linkages primarily involves text. Grounded research usually includes data collection beyond interviews (Ryan & Bernard, 2003; Suddaby, 2006; Yin, 2009). Consistent with this line of thought, the point of departure for field-work was archival analysis. The start of this investigation primarily included annual and quarterly narrative reports prepared by the apex and the Programme Support Document (PSD). Numerous other documents served as data and evidence throughout the study. In addition, *focused interviews* were conducted utilizing an open-ended, conversational method (Yin, 2009).

4.1.1 Archival documents

Technical and non-technical document reviews provided data and stimulated interview questions. Appendix A provides a list of these documents. Strauss and Corbin (1998) defines these documents when used according to their grounded theory approach. "Technical literature" is reporting of research, among other professional documents. "Nontechnical literature" is documents, records, reports, and other materials that serve as primary data (pp. 35, 51, 52).

Most documents were obtained from MITAF participants. Some were obtained from subject web pages. Several documents were referred to by interviewees, further adding credibility to these documents. All but a few documents were in electronic format. The documents provided quality, relevant data on organizational behaviors and characteristics of aid capital flow. The documents contained data that explicated, and were explicated by, the interviews.

Several documents were particularly valuable: Programme Support Document (PSD), Investment Policy and Procedures Manual of MITAF (Manual), performance based agreements, and MITAF narrative reports.[27] The PSD, viewed as primary data, functioned as a constitution, by-laws, and strategic plan for MITAF. The Manual, also a primary data source, was designed as a policy guide and operations manual for administering the project. MITAF narrative reports were also primary data and provided rich details on the decisions, actions, and behaviors of the organizations, as well as aid capital flow to MFIs. Particularly useful for this investigation was MFI performance indicator data (e.g., outreach and portfolio-at-risk) and donor disbursement behavior and rationale. Included with each MITAF narrative report was a set of spreadsheets providing ordinal and ratio data on MFI performance, donor capital commitment, and disbursement details. Spreadsheets for year-end 2009 and first quarter 2010 were used for this investigation to provide capital investment commitment and disbursement data for each MFI by

[27] MITAF narrative reports were provided to all donors, the Bank of Sierra Leone, and the Ministry of Finance.

year.[28] Other documents, such as MFI evaluations, served as secondary sources for triangulating emerging concepts and strengthening interpretations about observed events (Denzin & Lincoln, 2003).

The examination approach was based on a concept-indicator model that emphasizes constant comparison between and within empirical indicators and emerging categories and concepts. The analysis began with fragmenting archival documents, especially MITAF narratives. The generative questions[29] stimulated by these archival documents were combined with the interview guiding questions.

4.1.2 Interviews

Open-ended interviews conducted both in the field[30] and via Skype[31] were conversations utilizing a protocol approved by the University of Pittsburgh Institutional Review Board (IRB). This consistent line of inquiry aimed to answer posed research questions. More precisely, the interviews were a non-intrusive method used to elicit participant understandings of aid capital flow interactions, beliefs regarding the process, challenges, and needed changes in MITAF. The open-ended questions allowed respondents to express their perceptions and beliefs in their own words, as opposed to requiring them to use a construct involving forced-choice. Interviewees representing the actors in the case study were required to provide informed consent (verbal) to participate in the study. Accordingly, a recruitment script, pre-interview statement, and a project information document were prepared and received approval in compliance with the ethical standards for human subject research.[32] These approved documents are in Appendix B. Interviewees were informed of the general thrust of the research,

---

[28] Strauss and Corbin (1998), explicitly discussed the use of quantitative methods in theory building. They summarized that "Getting to the heart of the matter, our advice…is to think in terms of the interplay between qualitative and quantitative methods…the more operational point is that data collection and analysis can be done in both modes, and in various combinations, during all phases of the research process" (p. 31).

[29] "Generative questions" prompt the analysis down fruitful paths including hypothesis development, gathering particular types of data, and valuable comparisons (Strauss, 1987, p. 22).

[30] Field work was conducted July 8-22, 2010 and February 14 through April 28, 2011.

[31] The audio interviews via Skype allowed for many of the advantages of face-to-face interviews, such as developing relationship, tenor and voice inflection. In addition, one respondent could see the interviewer, though the respondent was not visible (Fontana & Frey, 2003; Markham, 2008).

[32] After this research proposal was approved by the proposal committee the researcher completed training, and was certified, for human subject research. This study was deemed exempt from review by the IRB.

what was being requested of them, and their rights. Although archival data are quality evidence of relationships between actor behavior and aid capital volatility, the interviews were an essential source of data for behavioral event case studies (Yin, 2009). The interviews resulted in multiple forms of data, including field notes from the informal portions of the interview, digital recordings of the interview, and transcribed recordings. The following discusses the subjects (donors, apex, and MFIs) involved in the interviews, beginning with donors.

As mentioned earlier, four donors comprise the MITAF Investment Committee. This investigation portrayed the donors in a fascinating collaboration of diverse organizations for a specific sector project. The interviews included one KfW representative and one Cordaid representative. Both were intimately involved with MITAF and attended IC meetings. Interviews were conducted independently via Skype utilizing auto media. In addition, one representative of UNDP was interviewed in Sierra Leone at the UNDP office, while four subjects were interviewed from UNCDF in Sierra Leone, Senegal, and New York City. These donors represent the type of agencies that provide most microfinance capital to developing nations (Reille & Forster, 2008).

The apex organization was the MITAF operational mechanism and interacted extensively with aid agencies and MFIs (Levy, 2002; UNCDF, 2004b). As mentioned earlier, a technical service provider (TSP) was selected by the Investment Committee (IC) to administer MITAF. Two TSP staff provided interview data, a base of operation for this research, and extremely valuable archival data.

MFIs were the primary focus of donor and apex activity. Four of the participating MFIs were selected for interviews. The primary purpose for sampling MFIs was to identify actors participating in transactions with a variety of capital flow characteristics that clarify and enhance understanding of organizational behavior. Although it would have been possible to interview the managing director of each MFI, the most effective and efficient use of resources was found in a purposeful sampling approach. The study was able to assemble a group of MFIs that represent a very high degree of variation in behavior and capital volatility during 2006-2009 by utilizing a combination of *operational construct sampling* and *criterion sampling* (Morse, 2007; M. Q. Patton, 1990). In this investigation such an approach is considered, in effect, to be *theoretical sampling* when used in grounded theory (Cutcliffe, 2000).[33] Specifically, IC approved capital

[33] Grounded theory uses theoretical sampling without a preset limit of interviews in order to achieve theoretical saturation. Often qualitative researchers do not make a distinction between purposeful and theoretical sampling. It is important for the study to describe the sampling strategy in detail so as to minimize questions regarding sampling, improve rigor, and provide clarity on theoretical sampling techniques (e.g., MFIs of various regions, structures, performance based agreements for aid capital

investment deals (consummated by executing performance based agreements) were selected that provided rich data for analysis (i.e., grants and loans), frequency, and important time periods. In addition, MFIs were selected based on four criteria: structure, domicile origin, geography, and year of MITAF capital commitment. MFIs representing different regions and structure (e.g., NGOs and community bank) were considered when selecting organizations for interviews. This sampling approach captured diverse behaviors and characteristics and provided rich insights on the linkages between behavior and capital volatility.

The sampling process began by analyzing MITAF deals through the entire project period. In particular, data at the MITAF office were analyzed to identify consummated capital investments by type, year, donor(s), and MFI. For example, three MFIs interviewed each received capital commitments from MITAF donors representing 9.2% of the 76 deals (i.e., capital commitments). One MFI received both grants and loans from the IC during five of the seven project investment periods.[34]

The four MFIs selected for interviews served as the primary, though not exclusive, MFIs observed in this investigation. Observed MFIs were selected by using a combination of operational construct sampling and criterion sampling. The MFIs in this investigation are not identified in order to preserve confidentially in accordance with the IRB approved protocol. These four MFIs accounted for approximately 42% of the total deals during the MITAF operating period. The *dollar amount* of capital investments represented by these deals was approximately 32% of all MITAF capital investments.

Interviews were conducted in numerous configurations and a variety of settings. The managing director of one MFI was at the main office, while another interview was conducted in a hotel dining hall in the MFI's community. One consisted of a focus group comprised of the managing director and six personnel, including senior management and field staff. Similarly, two other interviews included the managing director and two other staff, conducted at the corporate location.

---

investment). In this analysis, where a case study was combined with the grounded theory approach, it must be emphasized and demonstrated that experienced, knowledgeable interviewees were selected.

[34] A "period" was only a year during 2004-2009. Before MITAF was officially launched the IC made investments. In the archival data this time was referred to as "interim" and is included in this study as one of the operating years through the standardization label of "periods."

The interviews elicited data from MFI actors, as well as donors and the apex, using a consistent line of inquiry comprised of three questions:

- Briefly describe the disbursement process from Investment Committee approval to the last disbursement.
- Are there any major challenges to this process working as designed?
- Are there any major design features in this process that should be changed, deleted, or added to?

These "guiding questions" provided structure while allowing for extensive flexibility (Strauss & Corbin, 1998, p. 78). The structure assisted in organizing and analyzing data, as well as assessing the quality of the study. The flexible open-ended question format provided for responding to emerging questions and concepts in the field. For example, other subject-specific questions were asked based on the archival analysis; thus, both generative and confirmatory questions, as well as concept testing elements, were included in interviews (Lee, 1999; Strauss, 1987; Strauss & Corbin, 1998).

The structure and flexibility also eased the administration needed to accommodate eliciting data from groups (focus group), which occurred in four interviews. The challenges typically associated with group interviews were not substantial distractions. The benefits of this type of interview (e.g., perspective of specialized experts such as operations, finance, and lending) strengthened the data. For example, a senior official's presence had a constraining effect on other members who may have sought to dominate the discussion under different conditions. When respondents other than the senior officer provided limited input it did not distract from the data collection because the interview was intended to include only the senior official (Fontana & Frey, 2003; Krueger, 1988).

Gathering interview data involved important questions pertaining to access, culture, presentation, trust, and rapport (Fontana & Frey, 2003). Access to the setting, or interview subject, was accomplished through a variety of approaches. One respondent was identified at a conference and was instrumental in securing three other interviews. A business owner and NGO managing director is a personal acquaintance of the investigator and negotiated schedules and provided the location for an interview with another MITAF participant. The apex was contacted via email in the embryonic stages of developing the research proposal and visited a year before this study began in order to ascertain the study's feasibility. In addition, the apex provided email contact information for KfW and Cordaid respondents. In total, eleven interviews consisting of 23 individuals,[35] conformed to the Strauss and Corbin guidelines for creating a "skeleton of theoretical structure" (Strauss & Corbin, 1998, p. 281). Archival documents, combined with repeatedly returning to data to fill in the skeleton, created a dense, integrated theory.

Beyond access, cultural matters factored into minimizing difficulty in securing and administering interviews. This was especially important when establishing rapport. Valuable assistance was provided by an "insider" to assist the researcher in moving throughout the country to conduct interviews (Fontana & Frey, 2003, p. 77). Moreover, without the assistance of this lecturer from Njala University (compensated) with logistical preparations prior to arrival, the tremendous amount accomplished in the short research schedule would not have been impossible. With MITAF scheduled to officially end soon after field work commencement, this assistance was especially valuable.[36]

Presentation, trust, and rapport drew on several study approaches and attributes. The researcher always dressed in business attire (coat and tie), though respondents were in more casual attire. This was intended to raise respondents perception from what may have been a student researcher to a more professional researcher. This was also used in Skype interviews where it was unclear at the onset if visual contact would be possible. When conducted face-to-face, a university business card was presented upon arrival. An official introduction and the Pre-Interview Statement underscored the professional nature of the exchange. In most instances, the pre-interview discussion was instrumental in easing the atmosphere and creating openness. Brief responses and stoic expressions quickly moved to smiles, laughter, and more extensive comments.

For example, in two interviews the researcher mentioned visits to northern Sierra Leone, with specific geographic details. There was a noticeable change in the vibrancy and openness of the engagement. Another example is when the investigator drew upon banking experience connections, including candidly granting a request for an example of a bad lending experience, to provide a common frame of reference with the respondents. This created a sense of camaraderie and mutual empathy (Morse, 2007; Strauss, 1987).

In some instances the interview meeting served as the actual interview request. In those instances the interviewer recited from memory the Subject Recruitment Script. Upon receiving approval to proceed, and afterward, there was informal conversation. These informal

[35] This does not include the storyline interviews used to validate findings.
[36] The initial field data gathering occurred July 11-22, 2010.

conversations provided valuable insights and elicited data from responders when recording may have been a restraint. For example, one responder used the expression, “Probably, the, I would say in a positive sense, the bureaucracy in the institutions.” This response, shaped to be “in a positive sense,” may have been altered because of the recording. Informal conversations, especially after the interview, often had at least a small sense of greater freedom of expression. In any event, before starting the line of inquiry in the protocol, the interviewer read the Pre-Interview Statement (PIS), in accordance with IRB approved protocol. The PIS included a request to record the interview and the promise of response confidentially. Field notes of informal conversations were created according to the relevant insights provided and were analyzed as secondary source material. Though Strauss seems to emphasize field notes and deemphasize recording verbatim text, both provided evidence for this study (Covan, 2007; Stern, 2007).

Given the exploratory design of the research, the investigator probed for greater insight and depth in responses. During initial interviews, additional specific questions were posed to many subjects. These specific questions focused on two areas: exploration of events recorded in archival documents or that emerged from other interviews, and testing concepts excavated the data.

Two examples illustrate these question forms and how the queries were made. Analysis of narrative reports prepared by the apex recorded an event where a donor delayed the execution of a PBA pursuant to an investment decision. The MFI response referenced above was related to the second protocol question, *Are there any major challenges to this process working as designed?* The interviewee responded, “Well, the thing is, it’s not necessarily the processes, you know. Probably, the, I would say in a positive sense, the bureaucracy in the institutions.” This created an opportunity to ask about donors timely completing contracts and the linkage with capital volatility, “Have you…experienced, one…delays in contracts being executed when you come to an agreement, and two, if you have, did it really matter, did things get held up because of that?” The exploration of specific events assisted in understanding perspectives, beliefs, and interpretations provided by each respondent.

Another example illustrates concept testing with disbursement conditions stipulated for capital investment. One concept that explains volatility emerged from an interview. The concept noted that MFIs take a long time to satisfy disbursement conditions and, in the interim, donor investment priorities change. In a subsequent interview a donor responding to the first protocol question, *Briefly describe the disbursement process from Investment Committee approval to the last disbursement*, by saying, “…sometimes it can take some time because it has to be processed through the finance department to make sure the funds are available." This created an opportunity to verify the concept. The investigator noted, "Let's stay there for a second. Because that could be a point…Though funds were committed to the MITAF project, from time to time, a funder can have organizational priorities change, and as those organizational priorities change, that impacts from time to time, the availability of funds for any given request that comes through. Am I close?"

These specific questions were often asked when comments by the respondent created the appropriate condition, or context in which to ask them (Krueger, 1988). On occasion the specific questions were asked after the interview protocol was completed. The portion of the interview shaped by the protocol was recorded and lasted approximately 16 to 90 minutes. Though both the median and the mode lengths were approximately 30 minutes, the extreme variance was the function of a number of factors: place in interview sequence, the interviewee's conversational style, and the number of interview participants. Noteworthy was the apex interview, which was the longest. It was agreed early on by the researcher and apex staff to make this the wrap-up interview. Also, time was taken during the interview to download several electronic documents.[37]

4.2 DATA ANALYSIS METHODS

This study focused on answering the research questions and, to a great extent, analysis was accomplished simultaneously with data collection. The grounded theory approach and techniques used to analyze data are presented in this section. The primary analytical work was beyond coding text and involved interpretive analysis that required creatively utilizing constant comparison to develop theories. Central to this *emergence process* was regular memo writing before and during data coding. Memoing recorded early hypotheses development and served to create dense, integrated theory as the hypotheses were revised throughout the investigation (Bazeley, 2007; Gephart, 2004; Strauss, 1987; Strauss & Corbin, 1998; Strubing, 2007). It was not a linear process, but involved intimate contact with the triad of analytic operations described below.

[37] Electronic documents valuable to this investigation were provided by donors and the apex.

Adherents to the school of grounded theory believed theory should be "developed in intimate relationship to the data" (Strauss, 1987, p. 9). The methods are inductive in the sense that explanations emerge from data. The approach is also deductive because relationship conceptualization is an interpretive process. The grounded theory approach used in this study deduced what was occurring by employing data techniques such as the *triad of analytical operations* (data collection, category coding, memoing), and *constant comparison* of pieces of data. Rather than positivistic methods involving hypothesis directed data collection and the concept of hypothesis testing (Gephart, 2004), the result was a theory "integrated, consistent, plausible, close to the data" (Glaser & Strauss, 1967, p. 103). As such, interpretations evolved from fragmenting the first archival document and generative questions began with the first interview (Strauss, 1987; Strauss & Corbin, 1998).

The initial data revealed explanatory concepts which were categorized and used to develop preliminary hypotheses for additional data collection and for successively evolving analysis of the relationships among categories (grouped concepts). Data were systematically coded to make salient embedded categories. The categories were *constantly compared* to each other and successive data collected. A core category emerged, bureaucracy, and was repeatedly affirmed by its dominant relationship to other categories. The model that emerged, *Capitalflow Bureaucratic Triad,* was validated by expert assessment and revisiting the data (Glaser & Strauss, 1967; Ryan & Bernard, 2003; Strauss, 1987; Strauss & Corbin, 1998).

The archival documents and interview transcripts were fragmented by analyzing for emerging empirical indicators of concepts that could be grouped into categories. Fragmenting is a process to open-up text, separate discretely, analyzed in detail, and compare to identify patterns (Strauss & Corbin, 1998). The constant-comparative technique was used to modify categories and explanations, achieving a better fit of the categories with each other, in re-aggregating fragmented data to develop core concepts of integrated theory. Throughout the coding process theoretical memos were prepared as part of the deductive abstraction process of theory development. In addition, most interview recordings were listened to repeatedly and informed memoing. Use of a digital recorder and other automated devices and applications were instrumental to conducting detailed, careful analysis.

4.2.1 Computer aided qualitative data analysis

SPSS,[38] Microsoft Word and Excel were used to help facilitate data analysis. The majority of computer analysis, however, was accomplished by employing NVivo 8. NVivo is a descendant of Tom and Lyn Richards' Non-numerical Unstructured Data Indexing, Searching and Theorizing (NUDIST) software. NVivo, along with ATLAS,[39] are the leading computer aided qualitative data analysis applications (Bazeley, 2007; Mecca, 2010; Strauss & Corbin, 1998).

Computer aided qualitative data analysis, including NVivo, has been discussed and debated extensively in methodology literature (Bazeley, 2007; Crowley, Harre, & Tagg, 2002; Holton, 2007; Weitzman, 2003; Yin, 2009). Computer applications are primarily viewed as tools in analysis. Tools do not conduct analysis nor do they develop theory. Using computers in qualitative research includes extremes of researcher detachment, such as entirely automating the coding process with results interpreted with statistics. For the most part the tools are generally accepted and regularly used by researchers to varying degrees to code passages of text for retrieval, record relations among categories, and graph linkage models (Holton, 2007).

Computer use in coding is strongly cautioned when abiding by the spirit and letter of the Strauss and Corbin guidelines employed in this study. When decomposing analytical coding processes, Strauss did not consider *precise process distinctions* "particularly relevant or important" (Bazeley, 2007, p. 82). The general concern among classic grounded theorists is computers are the impetus for a preoccupation with *data coding* and *retrieval methods* to the neglect of interpretive processes, such as theoretical memoing. On the other hand, recording

---

[38] Chapter five reports on an analysis of particular variables, *MFI percent of total number of MITAF deals*, and a dichotomous variable (*yes* received capital commitment, *no* did not) for the three periods (i.e., years) with the highest number of capital investment deals. In addition, chapter six refers to the statistical appendix in support of the importance of 2006.

[39] The researcher attended both introductory and advanced training on ATLAS.

and transcribing data is argued as valuable in the effort to capture rich data often lost to human memory or note taking. Nevertheless, Strauss discouraged a focus on precise capture of interview data. This reflected his concern for researchers focusing more on data accuracy than theory development. He was not concerned about missing interview data captured by digital recording. He believed if it was important it would surface again, thus minimizing the importance of meticulously maintaining frequencies of empirical indicators (Bazeley, 2007; Covan, 2007; Stern, 2007). However, given the small size of this study, it seems Strauss would recommend transcribing the interviews (Strauss, 1987).

Classic grounded theorists are less concerned about using computers *per se* than a "mechanistic mind-set" that is "counter-creative" to the essential function of interpretive creativity (Holton, 2007, p. 287). In this examination, digitally recorded interview files were named to maintain respondent confidentiality and transcribed by a qualified person with a master degree from the University of Pittsburgh (compensated).[40] Strauss and Corbin's concerns were controlled by continuously employing the triad of analytical operations (Strauss, 1987).

This investigation used a combination of computer applications for data fragmentation, reduction, and sampling. MITAF narrative reports, formatted in Microsoft Word and Excel files, were fragmented in the field utilizing the Microsoft Word function *copy and paste* and the *find* edit procedure. Generative questions resulted that supplemented the protocol to gather rich data revealing concepts, properties, dimensions, linkages, and processes. In addition, Excel assisted in analyzing instances of committed capital to guide theoretical MFI sampling for interviews. SPSS was used to make salient embedded linkages between organizational behavior and capital flow volatility, such as context and intervening conditions. However, NVivo served identification of empirical indicators, coding text, developing a hierarchal code structure, and analyzing association and relations to attain theoretical saturation in model development.

4.2.2 Open coding

Empirical indicators were initially identified during the *open coding* procedure (Strauss & Corbin, 1998). This procedure was used to fragment data in the data reduction process and involved both "line-by-line analysis" and "microscopic analysis" (Strauss, 1987, pp. 267, 268). Archival

[40] The transcriber successfully passed the transcription test administered by the Qualitative Data Analysis Program, University Center for Soical and Urban Research, University of Pittsburgh.

document and interview transcript text was analyzed to identify events, behaviors, ideas, and conditions pertaining to the research questions. The creative technique of labeling was employed to name discrete phenomena. Though the labels were both sociological and in vivo, the in vivo codes were given preference. Sociological labels were formulated by the researcher based on scholarly knowledge and expertise in the field of investigation (e.g., microfinance). In vivo labels were words used by actors in the MITAF case (Strauss, 1987). The labeling technique in the open coding procedure was guided by analytical usefulness and imagery. That is to say, the name selected was evaluated for its ability to relate with other codes, have its own meaning, and easily move forward in theory development. In addition, the name selected was intended to minimize the need to continually provide examples in order to explain meaning (Strauss, 1987). The name selected for discrete phenomena was very important in this investigation, especially as re-aggregation occurred in axial coding.

NVivo refers to nodes, or named discrete phenomena*.* Nodes were developed from the analysis and resulted in the assignment of archival document and interview transcript text to nodes in the open coding procedure. This process generated approximately 40 codes using the hierarchal structure, the majority of which were related to bureaucracy and conditionalities. A Node Summary is in Appendix C and reflects the hierarchy structure as axial coding began. It contains information such as name, description, number of source documents, and number of text references assigned to the code/node. Table 2 provides an example of initial and final codes resulting from continually eliminating old and adding new, as well as the reassembling process in axial and selective coding. It reflects fragmentation, re-aggregation, and integration that occurred in the coding process utilizing the NVivo application.

Table 2: Coding development.

Initial Organizing Categories	Examples of Response	Final Coding Categories
Donor Tools	They say ok, since maybe the institution is asking for $100,000 loan, $50,000 capacity building. So UNDP say ok, I will give the $50,000 capacity building. KfW will say ok, I will give the $100,000 loan.	Bureaucracy of Collaboration
	Probably, the, I would say in a positive sense the bureaucracy in the institutions. You know, you know, for example CORDAID may have different processes, approval processes and UNDP may have their own systems and UND may have their own systems so that's really, that's really a challenge.	
	So that is in the case of a loan. Now in the case of a grant, my experience has been that the donors, for example, they approve 50,000 or 100,000 dollars as a grant to the institution. One of the donors will say we'll give 25,000, another will say give 50,000, another would say 15,000 and so on among themselves.	
Resource Dependency	Who are they [MITAF] to determine that? But, when because we don't have resources, and if they say things, inasmuch as you will say that's not the way, you don't have the wherewithal to do what you want to do.	Bureaucracy of Accountability
	our [funder] focus is building the capacity of the national stakeholders, I mean, so that in the, and for sustainability reasons, in the long-term, the TSP [technical service provider] and this and that might be, but we [Sierra Leone] did need this to continue. Even when they are not here.	
	So all these things are taken into consideration so when the presentations are made like, you know, for funding by the TSP [technical service provider] you look at some, some of them, they're weak, but you say look, they're, weak, ok, but what do we do? If we deny them they die. Sometime they operate in certain areas where other institutions are not.	
Dual Mission	It goes through a lot of bureaucratical hoops like we are having to establish another branch. The document, the business plan is there, but we are still awaiting funding. So each time an area that will be ministered to have to go to. There is no, no microfinance institution there. So the people are always waiting. (outreach mission)	Bureaucracy of Effectiveness, Efficiency and Impact
	But, today we carry 2 missions. We have a social mission, we have a commercial mission. How do you blend all of these? And in the process, we cannot reach many of the rural population because of permanently watching OSS [operating self-sustainability], permanently watching productivity, permanently watching FSS [financial self-sustainability], permanently watching our targets.	

4.2.3 Axial coding

Whereas the open code procedure served to fragment data, *axial coding* was used to begin the process of re-aggregating data (Strauss & Corbin, 1998). Axial coding employed the constant-comparative technique, code-to-code analysis to nuance out code properties and dimensions. More important than properties and dimensions were viewing *interactions* in the capital flow *process* by employing axial coding. It was essential to capture variance in decision makers' alignment of actions by decision makers with conditions and structures, which axial coding facilitated (Strauss & Corbin, 1998). This resulted in an hierarchal coding structure as subcategories emerged. In addition, axial coding procedures employed the Strauss and Corbin (1998) coding paradigm. Each category, or code, was explored with the intent of understanding what was going on with activity flow and relationship ontology.

Participant action/interaction and capital flow were examined to identify concepts of behavior-volatility relationships and the connections that hold them together. Table 2 (in the previous section) includes the node "Donor Tools" as a product of open coding. A sample of text references in Table 2 is provided as backing for the "Donor Tools" empirical indicator (i.e., category). An example of axial coding is the emergence of "Collaboration" as an axial code. Table 2 does not depict examination of the "Donor Tools" and "Collaboration" relationship, which is the relationship connection for the "Information Asymmetry" node.[41] Relationship of "Collaboration," "Information Asymmetry," and "Donor Tools" connects a substantial proportion of text sources. Of the 17 sources available for coding, Collaboration accessed 15, Information Asymmetry accessed 12, and Donor Tools accessed 11. Of the nodes accessing the same number of sources, Information Asymmetry had the second most text references while Collaboration and Donor Tools had the most. Furthermore, Collaboration text references were also references in 75% of all nodes. Although the Strauss and Corbin approach emphasizes that grounded theory is not a numbers game, dense and saturated integrated theory is a basic tenet. The nodes represent concepts of relationship between behavior and volatility while serving as connectors by accessing a substantial portion of sources with frequent references in those sources.

[41] Appendix C contains a graphic illustration of NVivo 8 employed in axial coding analysis.

The Strauss and Corbin (1998) coding paradigm assists excavating embedded relationships as a tool to arrange and classify emerging linkages. Their paradigm, presented in Table 3, served a central aim of this examination's strategy, mainly relating *structure* with *process* (Nutt, 2010). Structure, or the *organization*, and process, or *capital flow*, are foundational to MFIs in post-conflict fragile states participating in the development of an inclusive financial services sector. The coding paradigm assisted in uncovering the *performance based agreement* as a vital context and the *mid-term evaluation* as a critical intervening condition.

Table 3: Coding paradigm.

Components	Description	Example
Phenomenon	Repeated patterns of events, happenings, actions/interactions of what people do and say.	Pattern of portfolio-at-risk (PaR) above industry standards.
Causal conditions	Events that influence phenomena.	Delay of capital disbursement for capacity building
Intervening conditions	Conditions mitigating or otherwise altering the impact of causal conditions on phenomena.	Donors approving and disbursing capital although MFIs not performing at industry standards due to mid-term evaluation occurring, and the need demonstrated by program outputs and effectiveness.
Contextual conditions	Patterns of causal and intervening conditions that intersect at a time and place to create a set of circumstances which people respond to with actions/interactions.	Explains why donors disburse capital to MFIs not performing at industry standards for some deals and not others.
Actions/Interactions	How people handle situations, problems—strategic or routine tactics.	How socially focused MFIs responded to donor requirements for lower PaRs in order to provide funding to sustain operations.
Consequences	The result of actions/interactions with inherent properties.	Conditions that emphasize PaR at industry standards levels result in capital disbursement delays.

4.2.4 Selective coding

Axial codes served formulating theory by informing the *selective coding* procedure (Strauss & Corbin, 1998). Axial coding employed the technique of integration, “the ever increasing organization of the components of theory” (Strauss, 1987, p. 21). The technique involved identifying the central category, or categories, that accounted for the greatest amount of variation within the codes. Central categories coalesced other categories to explain the linkages between behavior and volatility. Although *bureaucracy* and *disbursement conditionalities* explained the variation overwhelmingly, Strauss and Corbin (1998) suggest that one idea be *selected* as the core category (selective coding). Using their criteria, provided in Appendix D, *bureaucracy* was selected as the core category. The selective coding procedure also involved developing internal consistency, addressing logic gaps, completing the development of some categories, and eliminating others. For example, over a dozen coding categories stored in NVivo *free nodes* (i.e., functionally eliminated) were used in fragmentation to reference data not directly related to this investigation.

It is important to understand that these procedures did not proceed linearly. Both data collection and data analysis methods were guided in an iterative fashion by the triad of analytical operations: data collection, coding, and memoing. Coding quickly led to memoing. Theoretical memos were analytical and interpretive devices that described linkages among concepts. Memos evolved through the research with numerous adjustments and additions. It is a device that served both to maintain grounding and enhance distance from the data for conceptualization (Strauss & Corbin, 1998).

After selecting bureaucracy as the core category, a “*storyline memo”* was written to present concepts that emerged from the investigation for MITAF actor validation. The storyline memo was used to validate the “theoretical scheme” utilizing actor feedback interviews and email. The script used to request evaluation of the storyline memo is in Appendix B. The storyline memo, as originally presented, is in Appendix E. The feedback resulted in adjustments and informed strategy recommendation development, illustrating the non-linear execution of research procedures.

4.3 TRUSTWORTHINESS

The trustworthiness of this examination was measured by drawing on “criteria for evaluation,” emphasized by Strauss and Corbin (1998, pp. 268-272). Validity, reliability, credibility, adequacy of the research process, and empirical grounding of the research were used as method-appropriate alternatives to the “usual scientific canons” (Strauss & Corbin, 1998, p. 266). It is important for the reader to understand the criteria used to generate the research findings to avoid misunderstanding due to different criteria.

Strauss and Corbin redefined the *external validity* measurement in terms of *explanatory power,* the aim of grounded theory in building theory. This case study examination explains what might occur in given situations. The specific conditions that give rise to certain organizational behavior and capital flow volatility were set forth. In addition, how organizations responded to variance in capital flow, and how variance in capital flow varied with the behavior of organizations is presented. As a result, others can make informed assessments as to the applicability of the research findings to other settings and test the theory’s validity (Dey, 2007; Strauss & Corbin, 1998).

Reliability of research findings for Strauss and Corbin (1998) substantially conforms to the classic understanding that other researchers ought to develop “the same or very similar theoretical explanation” about the focus of the study when conducting the analysis (p. 267). Documentation of the procedures, including the research process, serves reliability. This documentation included a daily research log of field-work as an audit trail, secure data files, and research field notes. The digitally recorded interview files were named to maintain respondent confidentiality, transcribed, and compared to the recordings by the investigator to strengthen reliability (Lee, 1999). In addition, the application of the triad of analytical operation controlled research bias by maintaining data grounding (Strauss, 1987).

Credibility was used as the method-appropriate criteria for research accuracy and thoroughness to identify and describe organizational behavior and capital volatility. This examination involved methods of triangulation, in which multiple sources were used to answer research questions. For example, in MFI organizations accounting for a substantial number of donor commitments to provide capital, at least one representative of each Investment Committee organization and apex staff were all asked the same three interview questions. In addition, archival data were obtained from, or confirmed as appropriate by, at least one of these organizations. This reduced the risk of weakening data analysis by any single source and form of data and analysis. Participant checking aided reflectivity and verification (i.e., storyline memo). Initial findings were presented to some MITAF participants to obtain feedback. This included their assessment of the face validity, which was reflected in the resulting substantive theory.

Adequacy of the research process was determined as the researcher's coding procedures supported careful and thorough following of proven grounded theory methods, such as identifying empirical indicators and theoretical sampling. The basis for case and interview subject selection was set forth earlier in this chapter. The major categories that emerged with some of the empirical indicators are presented in Appendix C. Examples of theoretical formulations guiding data gathering are reported in this chapter. The basis and validation of several beliefs regarding conceptual linkages were also provided earlier in this chapter. Moreover, the *how* and *why* of the core categories selected are detailed in the previous section (Selective coding), and integral to theory development in chapter seven. Finally, each phase of the examination was scrutinized and reviewed by research advisors at the University of Pittsburgh (i.e., dissertation committee members). These advisors provided critical comments, especially on the methodology and data analysis, before the study commenced, which made the examination transparent and rigorous.

Empirical grounding of the research in this investigation was based on the belief that the components of theory are concepts grounded in data. This investigation was guided, and measured, by several procedures and techniques drawn from the Strauss and Corbin method (Strauss & Corbin, 1998). *Concepts* were used to develop dense theory and a sense of robust use is resident in the report (see chapters five and six). *Systematic linkages* between concepts was achieved and "woven through the text of the publication" (p. 270). *Process development and density* thoroughly and carefully identified "movement, sequence, and change," including evolution in response to context and condition changes, resulting in category density and robust explanatory power (p. 167). *Accounting for variation* by focusing on change and linkage with structure both connected the categories and identified patterns over time and space. For example, organizational behavior related to capital disbursement was observed during the mid-term evaluation year and during performance based agreement consummation. *Variation conditions* are not only discussed as exogenous variables of the IAD model, but reflected in examinations of decision making and capital volatility. *Verification wa*s accomplished by both obtaining feedback from actors in the field (e.g., storyline memo), and *reexamining* data central to the *triad of analytical operation* (Strauss, 1987).

4.4 SUMMARY

This chapter set forth in rich detail grounded theory research methods, approaches, and design aspects used to ensure rigor and trustworthiness in this investigation. Archival and interview data were collected and analyzed to identify volatility and linkages with organizational behavior. This data was analyzed and uncovered performance based agreements as a context to observe substantial variability. Similarly, the MITAF mid-term evaluation was discovered to be an intervening condition. This context and intervening condition was examined to observe linkages between organizational behavior and capital flow volatility. The examination utilized descriptive and inferential statistics, but primarily grounded theory coding facilitated by computer aided qualitative data analysis (e.g., NVivo). The result was a central code, using the in vivo code label “Bureaucracy,” explaining a substantial amount of variation in the behavior-volatility linkage. Findings, pursuant to the employment of methods described in this and the previous chapter, contain a rich detail of the MITAF case structure and processes, loci of behavior-volatility linkages. These descriptive findings are presented in the following chapter, and are the foundation for analyzing connections between organizational behavior and capital flow volatility.

5.0 DATA FINDINGS: ESPOUSED THEORIES AND WORKING THEORIES

The process discussed in this chapter, as recorded in archival documents and expressed in participants own words, focuses on actions intended to consummate and implement MFI capital investment deals. The portrayal of how agreements can be viewed from different perspectives is described. Also depicted is the constraining-empowering tension of organizational imperatives and collaborative commitments. The tension is observed in original processes (MITAF espoused theory) that were experiencing numerous changes, primarily due to conflict with individual donor organization imperatives. The formalized changes, developed in response to working theories or implemented processes, demonstrated MITAF's learning capacity and limitations. The importance of MITAF's learning capacity and limitations is embedded in the view that public policy administration is the actual expression of policy and speaks to espoused theories' relevance in attacking societal problems. On some occasions MITAF limitations were seen in formalized changes that complicated consummation and the deal implementation process. As such, MITAF's adapted behavior (i.e., learning) is best observed by focusing on the process to formalize commitments of capital investment in MFIs. Moreover, behavior and participants' expressions regarding the implementation of performance based agreements (commitment formalization) revealed perceptions and beliefs important to understanding interpretations of mutually agreed stipulations. Description of the MITAF capital investment process, including adaptations over time, from Investment Committee approval through disbursements depicts complexity in developing MFIs in post-conflict fragile state Sierra Leone.

This chapter lays the foundation for analysis of behavior and volatility by describing specific MITAF participant actions related to capital investment that emerged above other related and unrelated actions. It aims to vividly, richly portray and provide comprehensive insight on MITAF capital flow processes. First, the espoused theory of MITAF capital flow is exhibited. Official documents were examined, triangulated utilizing interview data, to excavate the evolving espoused capital flow process. Challenges, organizational learning, and limitations of formal responses were observed from this process. Second, the actual process used for capital disbursement in MITAF is described to understand both what was done and how adapted behavior came into being (Nutt, 2010). The descriptions of espoused and actual processes are rich, portraying flexibility and vibrancy. Individual organizational imperatives, collaborative commitments, and administrative expediencies created dynamic tensions that affected capital flow. Finally, capital disbursement action was brought into focus. The constraining-empowering tensions of organizational imperatives and collaborative commitments were found to affect organizational learning. Also, capital flow was affected by struggles of dual bottom-line objectives (financial performance and outreach to people) and operations administered with ambiguous identity.

The relationship between capital flow volatility and organizational behavior was investigated using the MITAF project as a case to examine and identify capital investment deal organizational-volatility linkages. But, the MITAF project was created to do much more than provide capital to relieve a "major constraint" in developing the microfinance sector. Prescribed project outcomes included assisting the Bank of Sierra Leone to establish a microfinance unit, and disseminate sound microfinance principles, which are widely accepted and practiced throughout the sector in Sierra Leone. *The linkages between organizational behavior and capital flow volatility are connected to activities involving numerous related initiatives.* Central to understanding linkages is understanding the capital flow process as designed and actually implemented, while MITAF also worked to advance related initiatives (Nutt, 2010). Examination of the MITAF project capital disbursement process is important, and "failing to deal with process will lead to incomplete and misleading understandings" (p. 600). Perceived values—what should be—were reflected in the design, while effect was reflected in practice. This chapter presents MITAF espoused theories, or the designed process, and the working theories, or process as practiced, to provide capital to microfinance institutions.

Microfinance, a mechanism to deliver capital to the poor, was one of four key initiatives stressed by the Sierra Leone government to restore the economy during post-conflict reconstruction. As such, MITAF was designed and implemented pursuant to the government's microfinance initiative (RSL, 2002b). Investigation of capital investment deals involved deal activity intertwined with many actions/interactions beyond capital investment, such as government initiatives and related MITAF activities. These actions/interactions were intended to be "mutually enforcing" (UNCDF, 2004b, p. 7).

Investors engaged in actions/interactions were ostensibly guided by the project's "overarching goal" to achieve the poverty reduction objective in the Millennium Development Goals (UNCDF, 2004b, p. 6). MITAF intended to assist in guaranteeing a "rapid development of the microfinance sector" by developing "professional microfinance institutions…leaders." These leaders were to drive sector development by demonstrating to other MFIs and the public that investment in the "lower end of the market are bankable" (p.6). The Sierra Leone government, United Nations Development Program (UNDP), and United Nations Capital Development Fund (UNCDF) all agreed,[42] as evidenced by signing the Programme Support Document (Appendix F), that rapid sector expansion was important and the absence of MFI leadership was a "principal constraint" to expansion (pp. 4, 6). Also, one of the four output concentrations was to support the Bank of Sierra Leone in establishing "an optimal enabling environment for development of the microfinance industry" (p. 7). MITAF support was to include: providing staff training, developing studies on sector constraints and opportunities, distributing information, and developing the nation's capacity support services (meso level institutions) such as, information technology, legal services, and accounting. MITAF aims included creating an enabling regulatory microfinance environment (not constraining), removing MFI leadership-void constraints, and propelling MFI sector development.

Utilizing the MITAF project for sector development, rather than directing aid to the Sierra Leone government, is a fundamental distinction of this investigation to other capital volatility literature. Many capital volatility researchers analyzed sector aid administered through government recipients. This investigation focused on the provision of sector aid to service delivery organizations (MFIs) through a project mechanism (MITAF). Macro studies do not delve as deeply into volatility and organizational behavior data as compared to this investigation. Macro level studies used statistical techniques to analyze measurements aggregated at the nation state level. The role of the state, and analytical depth and detail, are fundamental, substantial distinctions of this investigation.

[42] KfW (German Development Bank) is prominently noted as a founding member of MITAF both in the Programme Support Document (UNCDF, 2004b, pp. signature cover page, 26) and the Investment Committee Manual (MITAF, 2006, pp. 4, 7). MITAF was a UN project with the government of Sierra Leone and KfW was not a signatory.

5.1 PROCESS AS DESIGNED: ESPOUSED THEORY OF MITAF CAPITAL FLOW

The process designed for donors to provide capital to MFIs reflects situational expediency, innovativeness, and commitment to collaboration and learning. It focused on accountability, concessions, participatory engagement, and sound financial principles. Individual institutional imperatives quickly surfaced to mandate adjustments from the design. These adjustments involved greater accommodations of individual organizational interests and prevented the essential central function—the flow of capital—from encountering project-halting process problems. To be clear, of all the designed outcomes of MITAF, capital investment to MFIs for capacity building and growth of loan portfolios was central: it was about the money!

The design for capital disbursement from donors to MFIs served to implement MITAF Investment Committee (IC) decisions aimed at building MFI capacity and investment in MFI market leaders (UNCDF, 2004b). This disbursement process was intended to, "function as an effective and conducive mechanism for donors to channel their investments to MFIs" (p. 7). It was designed with the explicit intent of mobilizing additional donors or "strategic partnerships that enable MFIs access to capital (grants, loans [hard and soft] and commercial equity)" while maintaining the focus of providing financial service access to the poor (p. 12). The essential components of the process are depicted in Figure 3. The illustration reflects a process that continually engaged the various participants.

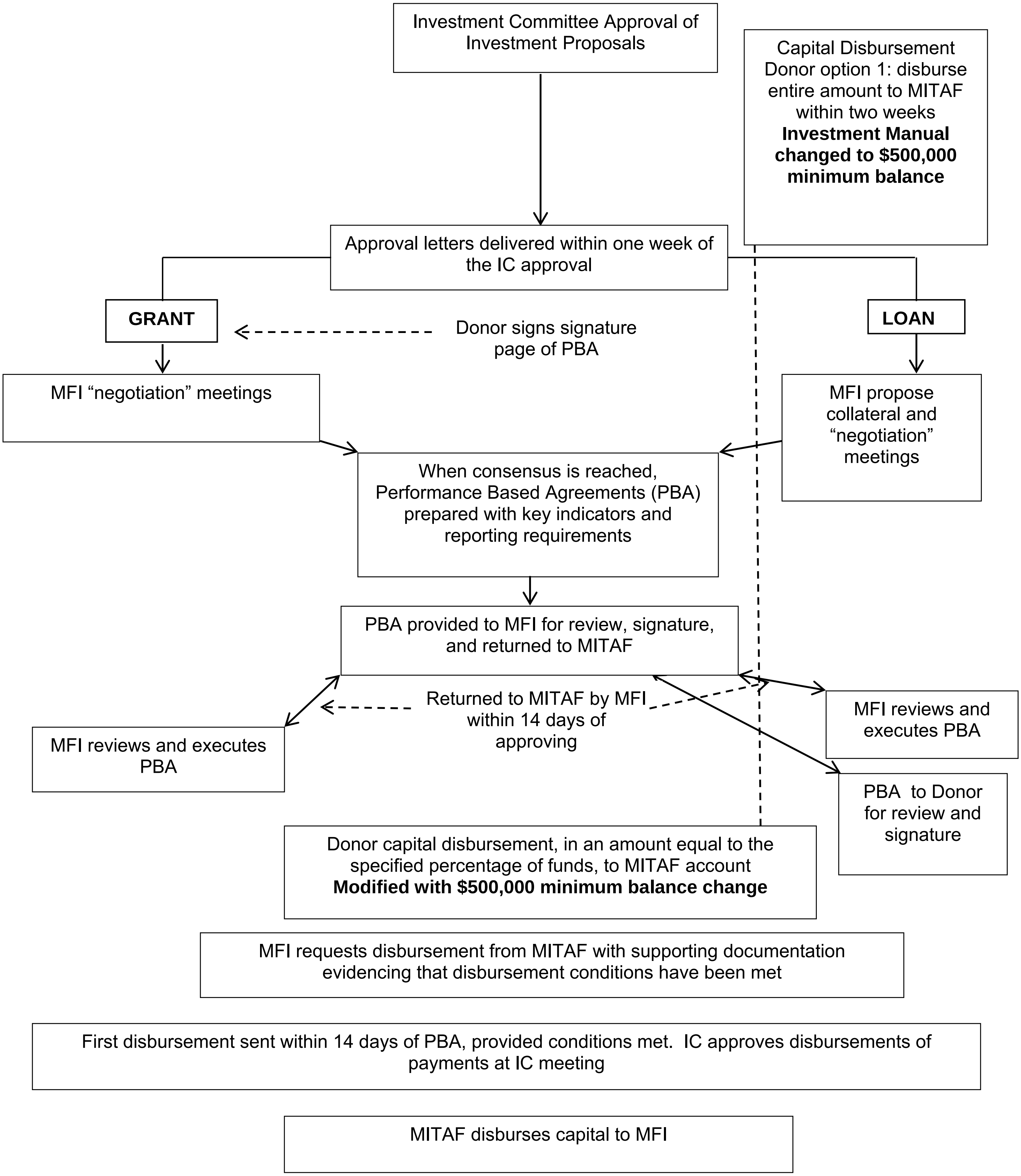


Figure 3: Process of capital flow as designed (espoused theory).

This investigation focused on organizational behavior and capital flow from the time a deal was approved at an IC meeting until the last tranche of capital was disbursed and available to the MFI. The MITAF process for disbursing investment capital involved actions that various participants were empowered to take. In the Program Support Document (PSD), for example, the rules for investing capital in MFIs were intended to clearly present required, permitted, and forbidden actions. MFIs were required to meet agreed conditions to receive capital; donors were required to maintain certain funds with the apex (MITAF project bank account); and the apex was required to meet with MFIs after IC approval to negotiate terms (Figure 4 and Figure 5). The objective is order and reliability in behavior and the flow (disbursement) of capital. The capital flow design and the empowered actions are generally set forth in the PSD and the MITAF *Investment Committee Policy and Procedural Manual* (Manual). For example, the tranche design, which involves disbursing loans using installments, is an example provided in the Base Loan Product available from MITAF. The specific design and actions are contained in a performance based agreement (PBA). The PBA served as the investment contract between donors and MFIs. Figure 4 contains an excerpt from the PSD, *Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone (2004-2009)*, setting forth the process.

The process of capital disbursement begins with IC approval. Then, the process is understood by going through first the PSD, the Manual next, and finally the PBA. Donors agreed to the choice rules (rules governing choice) of utilizing the same key performance indicators and required MFI reporting to donors. For example, key indicators used to determine minimum performance standards for MFI capital disbursements included:

- Outreach understood as the number of MFI active clients;
- Loan portfolio quality measured by portfolio-at-risk (PaR) of those loans 30 days or more past-due on payments;
- Profitability/Sustainability measured utilizing the computation of Adjusted Rate Return on Assets (AROA).[43]

A sample apex recommendation for grant and loan disbursement is provided in Appendix H.

[43] AROA is computed in the conventional method for return-on-assets (profit/assets) with total consolidated profit reduced for an inflation computation using a rate provided by the Bank of Sierra Leone and applied against a change in the MFIs equity/net assets; subsidized cost-of-funding computed using a market rate for loans provided by the Bank of Sierra Leone applied against compulsory savings balances and subsidized loans to the MFI; and in-kind subsidies (non-monetary) computed using data from the Bank of Sierra Leone and applied against a particular MFI's activity.

After performance indicators are stipulated for donor use, the PSD focuses on donor activities involving capital disbursements. The Manual, however, discusses the process between donors' agreement to key indicators and actual disbursement of capital to MFIs. In addition, the Manual details the process through PBA completion.

8. Execution/Implementation Arrangements:

UNCDF/SUM will serve as executing agent for its own funds, and implementing agent for some UNDP budget lines. Other donors are encouraged to cost-share through UNCDF/SUM in order to 1) minimize disbursement pressure; 2) harmonize reporting; 3) reduce administrative costs; and 4) expedite payments and implementation.

The project will establish a forex, interest-bearing main account with sub-accounts for each MFI or programme component. The Technical Service Provider and CEO of each MFI supported will serve as co-signatories of the respective sub-accounts. Donor/Investors will ensure that either: 1] investments approved by the Investment Committee can be paid within two (2) weeks of approval; or 2] that a certain percentage of committed funds (i.e. concretely committed via contracts for specific projects) is kept in the main account. It will be replenished upon proof that the previous tranche has been adequately used. Donor funds will be expended on a pro-rata basis (calculated according to the percentage of funds accepted under management) based on the payments approved at each meeting. Arrangements will be made for external auditing of the use of funds on a yearly basis by an independent auditing firm who will report to the Investment Committee.

Donors will have the right to cease support to an MFI, programme component or the programme if deemed necessary (non-fulfillment of performance criteria, misappropriation of funds). The decision should be discussed in the Investment Committee, or between the relevant donors in the case of support to a specific MFI (MITAF, 2006).

Figure 4: Programme Support Document.

Additional detail on the design of the capital flow process is found in the Investment Cycle section of the *Investment Committee Policy and Procedure Manual*. Details in the Manual provide additional insight on the choices, actions, and general involvement of the MFIs and apex (TSP) in the capital investment process. The Manual, dated approximately three years after the PSD created MITAF, reflects participant effort to enhance the espoused, formalized capital investment process.

After IC approval of the deal, the apex is required to act, and interact, with the MFIs. The apex prepares a letter regarding the IC decision and it is "delivered to the local office" of the MFI (MITAF, 2006, p. 20). In practice this involved sending an email with the notification and proposed conditions as attachments (Appendix G), or the MFI was called and requested to pick-up the letter from the MITAF office. This is followed by interaction of the apex with the MFI in a personal way. A meeting between the apex and MFI is explicitly required to negotiate the rules of the particular deal. These rules (PBA terms) specifically included duration of the deal, performance targets, specific conditions (other than performance targets), fund transfer specifics (e.g., foreign currency issues[44]) and, in the case of a subsidized loan, loan terms. Upon reaching consensus the apex drafts the PBA for MFI review. When agreement is reached on a final document the espoused process calls for the MFI to execute it. Action and interaction of all participants in the deal is expected to occur, according to the espoused rules, once an agreement is reached.

The espoused process implies that donors will sign the document first, especially for grant deals, and that MFIs will not secure any substantive changes in negotiations that necessitate execution of new documents. The Manual provides that MFIs return the PBA within 14 days of approving it followed by fund disbursement. The donor signing is described in the prior section of the Manual (4.5 Approval), and occurs before discussing approval letters or MFI performance based agreement negotiations. Discussing PBA signatures before negotiations to produce PBAs may seem out of sequence. Closer examination, however, combined with interview data, provided insight on efforts aimed at developing an expeditious process. The signing discussion specifically references the grant agreement page. The conclusion that donors were intended to sign first was supported by a donor's recount of how the process operated in the early years,

> Now, in some of the early investment committee meetings, we had, we had literally the grant agreements printed and ready to be signed once we knew at the end of the meeting what had been approved. And so we literally would, KFW, UNDP, and UNCDF would just pass the papers back and forth and say ok, we approved six, let's sign them, let's go. And with, and we each left with our own copies that we could take and put into our financial process and start the approvals.

[44] Capital comes in the form of foreign currency and needs to be converted to leones. This can be especially sensitive on loan deals where, over the period of the loan, the relative currency value can change dramatically.

> That worked fairly well in some of the early meetings. When it didn't work well it was because the technical secretariat wouldn't follow our requests and get the MFI to sign their grant agreement in advance. They, they sort of argued well, we don't want to raise expectations. And we said, well, you know, look, we're, you can just tell, we're approving 90% of what you propose anyway (Interview 8).

Special provisions were made for loan deal complexity. Although PSD is silent on the distinction, the Manual implies that donor PBA signatures come after the apex negotiates within donor-stipulated parameters. IC approval is explicitly described as a decision to support, with loan conditions and performance indicators subsequently negotiated. Furthermore, signed loan documents are described as "approval" forms, not "agreements" (MITAF, 2006, p. 20). As a result, Section 4.6.3 of the Manual requires each donor in a loan deal signs individually and subsequent to the MFI (Figure 5).

The Manual is dated July 2006, falling in one of the four years subject to this investigation (2006-2009). The date in the file name, as provided to this researcher, was October 7, 2006. The dates corresponded with the MITAF mid-term evaluation, which commenced September 6, 2006, and included an on-site examination September 18-30 (Duval & Bendu, 2006). One of the findings of the mid-term evaluation was that "[t]he procedures still in place for disbursing donor funds to partner lending institutions are unwieldy and contribute to unnecessary and disruptive delays in financing" (p. 33). Findings and recommendations were presented to MITAF and other stakeholders in a meeting to review an Aide Memoire after the mission ended September 30, 2006. The Manual's detail espoused tighter procedures and more explicit donor funding requirements. This investigation found that some donor behavior deemed objectionable during mid-term evaluation was still occurring through the end of MITAF. However, focusing on administrative incidents and brief explanations of the mid-term evaluation obfuscate more substantive behaviors by MITAF participants that are linked to capital flow volatility.

4.6 Closing

4.6.1 Letters of approval or rejection

After the IC meeting, approval and rejection letters are delivered to the local office of all applicant MFIs within one week of the decision. All letters will follow the standard format (see MFI Grant Approval Letter.doc and MFI Grant Rejection Letter.doc). When MFIs are approved for a loan, they are to propose collateral. Further, a meeting is scheduled to finalize the negotiations.

4.6.2 Negotiations/Closing with approved MFIs

MITAF meets with the selected MFIs to discuss the duration of the contract, performance targets, specific conditions, fund transfers and where applicable loan terms and collateral. Once a consensus is reached, grant or loan agreements are drafted. The agreements are provided to the MFIs for review and signature.

4.6.3 Contracts with approved MFIs

The MFI returns a copy of the signed contract to MITAF within 14 days of approval. Funds placed by donors under MITAF management are signed by UNDP, UNCDF and KfW on behalf of MITAF. Signatories for the MFI are the Executive Director or other high level senior manager.

Performance based financing agreements are negotiated and signed with the approved applicants. Consensus is reached on the financing to be made available (loans or grants for the loan fund or operational cost support) and the performance targets to be reached during the funding period in all areas of the Performance Standards (see the monitoring section 4.8).

The Investment Committee uses separate agreements for grants and loans (see Grant Agreement.doc and Loan Agreement.doc). Agreements include responsibilities of the MFI, contract duration, MFI bank account information, records, information and reports and general provisions. The loan contracts include also MITAF bank information and repayment schedules

4.7 Disbursement

MITAF maintains an MFI Investment account in Freetown (grants and loans) to facilitate initial and subsequent tranche payments. Donor/investors will transfer the approved/foreseen funding amounts into the account, upon which MITAF will domestically transfer funds to the MFIs' dollar accounts. All MFIs are required to exchange dollars for leones through a legally registered exchange bureau or commercial bank.

Initial funds are disbursed within 14 days of the signing of contracts. Subsequent tranches will be disbursed as per contract. The funds will be transferred by MITAF from the MITAF MFI Investment account to the MFI account.

MFIs are obliged to maintain certain performance standards to remain eligible for ongoing and future financing. In the case of non-performance, funds may be recalled and reallocated to a better performing institution.

Donors have the right to cease support to an MFI, to a programme component or to a programme, if performance criteria have not been met or if there has been a misappropriation of funds. The decision should be discussed in the Investment Committee or between the relevant donors in the case of support to a specific MFI.

To ensure that investments approved by the Investment Committee can be paid within two weeks of approval, at least $500,000 is maintained in the MITAF Investment account. It will be replenished upon request from MITAF and proof that the previous tranches have been adequately used. The KfW, UNCDF, UNDP funds are expended on a pro-rata basis (calculated according to the percentage of funds accepted under management) based on the payments approved at each meeting (MITAF, 2006, p. 21).

Figure 5: MITAF manual.

The behavior and process described in these two archival documents, combined with the PBA, reflected the struggles of establishing rules involving choice (e.g., duties, rights, and resource allocation) and boundaries (entry and exit). The Execution/Implementation Arrangements section in the PSD focuses on donor actions (see Figure 4 above). This reflects the orientation of the PSD, the agreement creating MITAF, which provided for the interests, rights, and responsibilities of the donors. The capital disbursement process was provided for in substantial detail, while allowing flexibility.

Capital investment disbursement stipulations in the PSD provided donors two options. In summary, after a MFI proposal was approved by the IC, donors that were party to the deal were to either: (1) pay to MITAF their portion of the deal within two weeks of IC approval, or (2) maintain in the MITAF main account a percentage (unspecified) of the amount provided for in the executed PBA (percentage approach). Presumably the initial payment was due when the donor returned the executed the PBA. The percentage was maintained by replenishing payments once proof was received that the prior tranche was used appropriately.

Organizational learning recorded in the Manual is visible when it is juxtaposed with the PSD on matters of capital disbursement. MITAF demonstrated the attributes of an adapting, learning organization on the matter of donors making capital available for disbursement to MFIs by MITAF. For instance, the percentage approach was modified from the PSD to a fixed, specified amount in the Manual. The two options were replaced in the espoused process with a flat $500,000 minimum balance in each donor's account, all maintained in the MITAF main bank account. Although this practically addressed most disbursement needs, the Manual also stipulates the donor was required to transfer to MITAF the amount of approved capital, or the foreseen deal, (presumably if soon to be approved) for MITAF to disburse to the MFI. This change, combined with limited donor behavior, was arguably evidence that organizational learning occurred pursuant to experience and the formative mid-term evaluation.

The espoused process provided that capital disbursements to MFIs were accounted for on a pro rata basis between the donors in the deal, in accordance to disbursement decisions made at each IC meeting. In addition, disbursements were subject to specific conditions as expressed in the consummated PBA. In other words, at each of the two annual IC meetings disbursement decisions were expected on prior deals and the payment of those disbursements from the MITAF main account were charged on a pro rata basis to each donor's account.

A hypothetical deal depicts the process. Assume the donors' portion of the total capital commitment to the MITAF project is as follows: KfW 50%, UNCDF 20%, UNDP 20%, and Cordaid 10% (Table 4). IC approves a deal for investment capital totaling $300,000 to an MFI for staff capacity building and office equipment. The capital commitment allocation of the deal is: KfW 50% ($150,000), UNCDF 20% ($60,000), UNDP 20% ($60,000), and Cordaid 10% ($30,000). In this example the PBA calls for the initial payment to the MFI to be $60,000 after resumes and applications for three prospective operations officers are submitted to MITAF.

Table 4: Example of capital pro-rata commitment for $300,000 MFI Deal.

(Not actual percentages or amounts)

Donor	% of Total Capital Committed to MITAF	MFI Capital Commitment Allocation-Total $300,000	First Tranche Allocation-Total $60,000
KfW	50	$150,000	$30,000
UNCDF	20	$60,000	$12,000
UNDP	20	$60,000	$12,000
Cordaid	10	$30,000	$6,000

When the MFI provided a request for disbursement, accompanied by the resumes and applications, the apex presented the disbursement request for approval at the next IC meeting. Upon receiving IC approval, the capital is disbursed by the apex from each donor's balance in the MITAF's main account charging the investors accordingly: KfW, $30,000; UNCDF, $12,000; UNDP, $12,000; and Cordaid, $6,000. Subsequently, MITAF provides donors a request for replenishment in the event their balance goes below $500,000. The Manual provides that MITAF disburses the initial payment to the MFI within 14 days of receiving a completely executed PBA.

The PBA consummated the capital investment deal and, in harmony with the PSD and Manual, set forth choice options and boundaries to the parties of the deal. For example, the

“Payment/Date” by the donor (“Grantor”) to the MFI (“Recipient Institution”) was contained in the PBA along with “disbursement conditions,” “key/results milestones” (“Expected Results”), and reporting requirements. The espoused rules provided in the first section of the PBA were as follow:

> 1.1 The **Recipient Institution** agrees to: complete the key results/milestones specified in the Section III below, including providing reports and statements to the grantor in accordance with the Monitoring Schedule. The **Recipient Institution** shall be responsible for verifying the accuracy of all reports. Funds provided pursuant to this Agreement shall be used to achieve these results/milestones. The **Recipient Institution** shall be free to reallocate resources as needed in order to produce the expected results.

The initial payment, or tranche payment, date stipulated in the agreement was mandated to occur within 14 days of agreement execution. This suggested that initial payment requirements stipulated in the “Disbursement Conditions” portion of the PBA were fully achievable within 14 days, if not immediately, in order to for these various documents to work in harmony (e.g., PBA and Manual not in conflict). In addition, it suggested that funding requirements in the Manual, as amended June 19, 2007, are satisfied (e.g., PaR maximum of 5% for loan-funding grants). Noteworthy was the explicit choice rule that the MFI had sole discretion in resource use to achieve “expected results.”

One of the most insightful provisions regarding organizational learning is Section 3.4 of the 2009 version of the PBA template:

> 3.4 The **Recipient Institution** shall request disbursements with the supporting information to show that disbursement conditions have been met. All payments shall be deposited into the **Recipient Institution’s** bank account of which the details are as follows:
>
> **Name of the Bank:**
> **Bank Routing Number:**
> **SWIFT Code:**
> **Beneficiary Account Name:**
> **Beneficiary Account Number:**
> **Address of Bank:**

The agreement provided that capital disbursed by a donor pursuant to the deal was not to MITAF, but directly to the MFI’s bank account.

The espoused capital flow theory in MITAF provided several valuable insights. The design consolidates capital from donors, as a collaborative mechanism, for disbursement by

MITAF to MFIs. Donors were obligated to proactively make the capital available. The initial disbursement of capital was required to occur quickly after approval of the PBA. MFIs bought-in to expected results and conditions as the process explicitly called for “negotiations,” as opposed to presentation of terms. Furthermore, it was reasonable to conclude the PBA signatory process for grants, plus the “negotiation” approach for PBA development, resulted in terms reasonable and achievable for the MFI. However, the working rules, as expressed by MITAF participants, differed in substantial ways from what was espoused.

5.2 THE PROCESS AS IMPLEMENTED: THEORY-IN-USE

The key components of consummating and implementing a capital investment deal are related and intertwined. The PBA is required to officially and legally do the deal, especially for loan capital. Certain provisions of the PBA are central and located in section III of the document: Key Results/Milestones and Payments. These provisions included conditions for disbursement and reporting. The official definition of these terms versus participants’ view of their operationalization reflected beliefs and perceptions that surpassed framing of document provisions. In practice, deals proved to be imperfect, loosely structured understandings deeply embedded in complex historical and human factors. Data providing insight into practice is provided in the following sections.

5.2.1 Performance based agreements

The immediate focus after IC approval was consummating the capital investment deal through a completed PBA. MFIs in the field described the beginning of the process as receipt of an approval letter. They then spoke of a process to agree on loan terms that created the PBA,

> And then we agreed on loan terms and conditions, you know, and once we agreed on loan terms and conditions, the formal document was sent to us for the review details and send it back and we agreed on the final loan terms and conditions (Interview 2).

The MFIs recounted a process very much in line with espoused procedures for executing the PBA up to completion. However, some explanations suggested that organizational behavior was not consistent with espoused theory on matters pertaining to donor execution of the PBAs.

Bureaucracy was a concept that emerged in MFI interviews to explain delays in donor PBA completion; they seemed to view the process as a black box. MFI interviewees had some specific insights on donor and apex processes, but their viewed was substantially limited to information entering the process and decisions emerging. For the most part, they were unsure how disbursement processing occurred. Suggestions regarding donor PBA execution embedded in MFI interview data were empirically supported in an official May 2009 MITAF archival document, "Investments approved in mid February 2009…The donors had not even signed the grant and loan agreements" (MITAF Narrative Report-3rd Quarter 2009).

The PBA was the essence of the capital investment deal. This perception was especially so for complex donor institutions. As emphasized in the banking discussion in chapter one, the fractional reserve banking system functioned on the money multiplier effect in which the ability to trust and act based on promises was integral to economic systems. Capital investment in a financial institution (i.e., MFIs) was a foundational component of the financial trust apparatus. One donor explained the centrality of mutual commitments in the deal involving donor-MFI relationships,

> Person: Basically this performance based agreement stated the target to be achieved and the way that the resources will be disbursed, as well as the purpose of the resources and as well as the monitoring aspect.
>
> Investigator: So this performance based agreement makes out the stipulation of the approval for the grant or the loan?
>
> Person: More than the approval, it's a, as a name is performance based agreement, agreed performance between the microfinance institution and [donor], which are the conditions to release the funds.
>
> Investigator: Ok. There it is.
>
> Person: So it's very important, it's the, the uh, the commitment that is made in both times. Microfinance institution saying that look, if I receive this amount of resources, I will use all the resources to do this and that, and this is what I want to achieve as far as outreach is concerned, portfolio quality is concerned, financial sustainability is concerned, and impact on the population is concerned. So this is the binding and legal agreement between the microfinance institution and the, the, and [donor]. And it also includes the, the reporting, including a template of quarterly reporting on the achievement of the set of targets as well as reporting on audited statements and so on and so forth. So, this is really a discussion between the microfinance institution and [donor]…(Interview 5).

The tenor of the response suggested that a donor-MFI deal is a particularly intimate relationship that strains the limits of donor collaboration in packaging deals. The respondent characterized the commitments as "very important," underscoring intimacy. Collaboration limits were vivid in the characterization of the deal as a "discussion" between the MFI and a donor. In practice, investment packages most often included more than one donor and many deals had cross-connecting properties.

One MITAF participant shared particularly interesting insights on how collaborating donors came to participate in a deal. Neither MFI notification letters nor the MFI negotiation meetings were mentioned by this respondent. Rather, the actual process of multiple donors participating in a deal was emphasized, as were apex efforts to prepare an agreement and secure participating donor signatures. Contrary to the espoused allocation technique for determining a given donor's investment in a deal, the actual process was much more fragmented. Also, the evolution of the last few years of the donor PBA execution process was excruciating. Understanding actual capital disbursement necessitates looking beyond the point of approval because the amount to be disbursed does not follow the allocation scheme outlined by MITAF's espoused rules.

Actual donor collaboration in a deal was driven much more by individual organizational preferences and goals than espoused processes. A simple, two donor illustration was provided during an interview,

> One donor giving a grant, and one donor giving a loan and because of their own whatever, one donor says no, I have no more money for grants. And the other one says, okay, I have money for grant. For example…UNDP is not allowed to do loans. So, UNDP will say, okay, I will give them a grant, you give them a loan. They do that kind of, but the loan will not be shared between donors. One donor will give a loan, the other one will give a grant (Interview 3).

The IC would agree to invest capital in an MFI and donor organizations discussed what specific deal an organization would participate in (grant, loan, or both). An investment package for an MFI was considered by the IC. Then particular donors would participate in portions of a package. These portions could stand alone or be cross-connected. For example, one portion of the package could be a deal for capacity building and the other portion could be for loan capital once capacity building occurs. In this instance the deals were cross-connected as the loan capital was intended to be available after capacity building occurred.

Decision making on deals not only considered the investment tool (grant or loan), but also the type of MFI. Although the investigation's focus, as reflected in interview questions, began after the decision was made to invest capital, investment decision actions impacted the actual disbursement conditions of the deal. A MITAF participant provided an illustration of this oft repeated message. "In many cases you find out Cordaid normally goes for the local, small MFIs. And, KFW tends to be more commercial oriented and they prefer big players like BRAC, LAPO" (Interview 3). Empirically, in the November 2009 IC meeting, the TSP recommended a grant deal of less than $20,000 for an MFI. The apex was directed to fund such requests from a MITAF budget line item; however, on this occasion Cordaid provided the capital. This behavior is consistent with the Cordaid Agreement to participate in MITAF ("Preferred market segment" in Appendix H).

These types of organizational attributes directly related to conditions of capital volatility. Deals made one-on-one between MFIs and donors, though in a collaborative fashion, allowed for individually designed PBAs without technically impacting other parties. For instance, a participant provided an example of a deal with a 7% PaR[45] for the first disbursement, rather than the espoused requirement of 5%. The condition for the second tranche was in-line with the 5% requirement. This reflected a more lenient, less commercially rigid philosophy.

Organizational learning reflected in MITAF's adaptation underscored their commitment to collaboration and capitalization on each donor's unique contribution. Beyond the simple two donor illustration provided earlier, one participant shared the complexity and finesse involved in the MITAF donor collaborative,

> So because we were 3 or 4 donors through MITAF, we should evenly decide, it goes each donor has to say for example, ok through the investment committee, I can fund this or that. So let's say UNCDF would come and say ok, I'm willing to, to give a loan to let's say ARD, or I'm willing to give a grant for capacity building to finance the loan for such amount...KFW would say we are funding, we are giving a loan to Hope Microfinance, for example. UNDP would say ok, we are not allowed to give loan, but we can give grant for capacity building for example. And CORDAID would say ok, we can give some funds, you know, for capacity building and loans as well. So it depends on what we agreed upon (Interview 6).

[45] Portfolio-at-Risk (PaR) is a loan portfolio default measurement of "the outstanding principal amount of all loans that have one or more installments of principal past due by a certain number of days (often 30, 60, or 90 days), divided by the total outstanding principal amount" (Rosenberg, 2006, pp. questionnaire, 9).

Investment opportunities included collaboration within a given MFI investment package and among different MFI investment packages presented at the same IC meeting. The strength of the collaboration was felt in the commitment of each donor to work cooperatively, when considering numerous investment opportunities, through the expression of individual organizational imperatives. Similarly, the complexity and finesse involved in the collaboration, as reflected in Interview 8, was felt in not only consensus building work among investors, but the shaping effect of environmental factors, such as an MFI regulator (a signatory to the project support document).

> One of the key challenges was that, you know, decisions were taken by consensus with the investment committee. And you have a range of interests present. Now, I think one of the key challenges is national ownership. The, the nominal chair, non-voting chair of the investment committee was the governor or deputy governor of the Central Bank. That really was, that wasn't always a problem per se. You know, it is, the, the Central Bank, well ok. They were related to one specific group of institutions, the community banks (Interview 8).

One response to the complexity and finesse associated with the MFI regulatory presence was to change the rules. MITAF voted to adjust the structure to include the Central Bank representative on the advisory board and removed that role from the Investment Committee. This structural adaptation also illustrated MITAF's organizational learning.

The actual process for completing the PBA reflected MITAF had learned the limits of collaboration contained in the same attributes providing strength. The procedures designed to achieve organizational objectives in mission fulfillment were difficult for a donor to abandon when the collaborative operational directive required each donor to work out the deal (i.e., complete the PBA) directly with the MFI. One donor recounted that,

> Actually, the, even the investment committee decisions were made for approval of applications, but in practice, afterwards, the individual donors were requested to take up responsibility for contracting and disbursement. So during MITAF 1 period, that's what we did. After investment committee decisions, we took up well, the obligation and contract individuals (Interview 7).

The implicit message in such an action/interaction strategy was one of customization that stretched the limits of order and reliability among participants. If there is not a master PBA with multiple signatories, to accommodate the practicalities of execution across nations, then the expediency of individuality was at the expense of commonality. Below is one donor's explanation,

> Because, exactly having those double procedures, because everybody, if, if you're making a contract, you will have to follow your own procedures as well. There's no organization that says ok, you've, you've approved it somewhere outside. Let's make a contract right away. No. Everybody still has his or her own procedures (Interview 7).

Reaching agreement on terms and preparing PBA documents, and especially securing signatures from donors, on occasion involved a considerable amount of time. This was particularly so in multi-party deals. Two deals for one MFI, valued at over $500,000, from the November 2009 IC meeting, still had undrafted PBAs at year-end. Once prepared, the agreements were unsigned by the donor as of March 2010 in part due to a deteriorating outreach problem at the MFI. Could this deterioration have been related to the delay of over $500,000 in capital the MFI ostensibly expected within weeks after negotiating conditions? Getting agreements written and signed was not as swift as provided for in the espoused disbursement process.

This donor described efforts to complete a grant deal, which espoused procedures depicted as simpler than loan deals,

> No, let's assume that we're talking about a grant contract. That's, that was more frequent under MITAF 1. So the next step will be preparation of the grant contract, taking a template as, as the underlying format, and the template has, had been agreed upon in advance, and so, we as donors ok, receive the template with the terms and conditions, ideally with the terms and conditions had been agreed upon in the IC. The donor reviews the grant contract and it has been always the case that there have been changes in terms of conditions or the contract was not properly made, so formal, formal mistakes. So it's, it's known that you have let's say one round of review. Some cases you have two or one or three, so the donor reviews the contract, sends it back to the, the TSP and the TSP gets in touch with the respective MFI to discuss the changes if relevant and if of importance… and sends it back to the donor, in this case, (donor) and if we agree to the, yeah, to the version, we sign (Interview 9).

In this instance, term changes and preparation mistakes were donor explanations for delayed PBA completion. Also, this donor expressed the feeling that there had always been multiple drafts involving at least one round of views and redraft.

As suggested by the espoused process, loan deals were more specifically structured by intimate donor involvement in PBA preparation. "[T]he loan terms are whatever the donor says, but normally donors, each donor will approve funding for each particular investment. They will lend, they have their own conditions or whatever. So they will draw up the loan agreement" (Interview 3). Another participant referenced the cross-national challenges and connected them, in part, to the institutional structure of MITAF,

…when they didn't get all the agreements signed at the investment committee meeting and, you know, pdf files were flying around the internet like can you sign mine and send it back to me and, and people were traveling all over the world, that dragged out the process, the process of payments very long. And I think that became a big problem. I think, you know, from one of the design issues you face at the beginning of these funds. And I call them, I put them in the category of funds for inclusive finance, and one of the decisions you face early on is what's the legal identity of this (Interview 8).

The cross-national challenges of consummating PBAs further exemplified MITAF as a learning organization. There was continual change and adaptation to find processes that served both collaboration and individual organizational imperatives. One participant summarized the learning process as demonstrating extensive effort to operate collaboratively,

And that impacts their [MFIs] performance. If you have a business plan and their projections are saying one year, these are my targets and the money comes 2 years after it then you are really, you're business plan is derailed. And actually, that's how we operated in the initial three years or so. And they now decided and said no, this is causing more problems. Now, one investment, one donor (Interview 3).

Rather than attempt to pro rate a deal among two or more donors, as originally espoused in the formal process, it was decided each investment deal had only one donor; however, an MFI investment package often involved more than one deal.

The PBA involved a complex document and process. This was not only because it is a legal document, but because its meaning in relationships and differences in agreements were reflected in different actions regarding the same MFI investment package. Individual donor imperatives were balanced with collaborative commitment. The apex administered the PBA preparation process to the extent that agent relationships were not complicated (e.g., some loan deals). MFIs sought the most favorable terms possible, while seeking clarity on how boundary constraints applied to aid evaluation of the opportunity; a deal or no deal dilemma. Central to the PBA were disbursement conditions. In the end, the complexity of relationships and guiding processes were expressed in capital disbursements; it was about the money!

5.2.2 MFI actions: Conditions and reporting

This discussion of MFI actions pertains to conditions and reporting and is descriptive. Upon looking at the types of conditions through the lens of working-rules, the linkages and correlations begin to erupt. Obvious linkages are addressed in a surface manner, as was in the PBA discussion. This section describes how conditions and reporting operated in practice.

Linkages are discussed in the next chapter. It is important to realize the ethical commitment PBA parties related to conditions, as well as organizational ontological struggles involved in action/interaction strategies.

5.2.2.1 Conditions in investment deals

The espoused understanding of conditions involved the expected behavior of MFIs more than donor expectations. As such, observed MFI behavior, in respect to the conditions in investment deals, revealed a lot. Conditions also told much about the agreement process. Boundary rules gave potential parties to a deal the power of choice: deal or no deal. Also, there can be agreement, but implementation can be viewed from meaningfully different perspectives. For instances, conditions set forth in PBA as rigid expressions of commitments gave place in practice to understandings best described as an evolving set of disbursement conditions with exceptions. Though not unheard of, MITAF agreements to invest given certain disbursement conditions rarely received the *no deal* response from MFIs. MFIs generally viewed the condition-disbursement connection as a key factor in their decisions.

There is evidence that condition setting was a negotiation process. Agreeing to conditions empirically involved some give and take. On one hand, conditions emerged from the IC and were generally believed to reflect interests and agenda of capital providers. These conditions prevailed in limited instances of divergence. On the other hand, one MFI explained there was negotiation on currency denomination for the loan. The MFI seemed adamant about the loan being in domestic currency (leones) and apparently won a concession from the donor.[46] In the mind of this MFI the foreign currency issue was a *condition*; but, the context of deals normally considered that conditions pertain to requirements for capital disbursement to MFIs. This is one example of how properties of a particular stipulation in deals were perceived differently. At times terms (conditions) involving repayment of capital were as important to an MFI as conditions for disbursement; capital flows both ways. The following interview excerpt presents the example,

> Person:…Once the loan was approved, we had a series of meetings, a couple, I think one meeting with the representatives of those who came here, the representatives of the donors who were here and we agreed on a loan terms and conditions.

---

[46] The Programme Support Document urges donors to be considerate of certain MFIs in this regard, "Care should be taken to avoid burdening young institutions with foreign exchange risk in loans denominated in foreign currency, unless adequate precautions are taken" (UNCDF, 2004b, pp. 15, note 17) .

Investigator: So after the loan had been approved, there was a meeting with the donors came and had a meeting with you?

Person: Yes, yes. The next investment committee meeting, they didn't come closer to approval or anything… there was a meeting, it was with them. And then we agreed on loan terms and conditions, you know, and once we agreed on loan terms and conditions, the formal document was sent to us for the review details and send it back and we agreed on the final loan terms and conditions. There were targets, benchmarks set, you know, so they advance the first loan….

Investigator: We talked about sitting down with the donors and working out the specifics of the conditions…

Person: Right

Investigator: …And as a result, an agreement coming out of that. How does (interrupted)

Person: Let me give you an instance. One of the issues that we are very concerned with a government loan is foreign exchange risk, Ok. We operate in leones [domestic currency] and we just can't see ourselves paying who knows, in Euro, to our donor (Interview 2).

Negotiation and flexibility were constrained and framed by the espoused intent of the MITAF project to develop a sustainable pro-poor financial sector. The sustainable property, reflected in the performance indicator dimensions, depicts the preponderance towards financial performance. For example, the one social indicator provided for in official documents is, *outreach understood as the number of active clients*. MFIs were required to report numerous statistics about the poverty and gender of their clients; however, these indicators were not used for performance measurement. Outreach measurements are diverse and complex in the literature. For NGO MFIs the mere number of clients does not adequately account for the challenge of sustainably providing financial services to the poor. Conditions for disbursement perceived to be excessively and inflexibly focused on financial performance indicators may result in an MFI making action-decisions that caused ethical struggles. One MFI explains the struggle in embracing performance indicators perceived as moving the MFI from its mission,

Does it have an OSS that is 100% plausible? Does it have an FSS that is 100% plausible?[47] Does it have a yield productivity of its portfolio? Hmm. Ah ah. Why are these people looking at those numbers? We are looking at the survival of people. So I

[47] Operational Self-Sustainability (OSS) and Financial Self-Sustainable (FSS) are organizational performance measurements. They are computed by dividing total revenue by total cost, and total revenue divided by total adjusted cost (inflation + subsidized cost of funding + in-kind subsidies) respectively. See note 2 for more information on total adjusted cost.

> will go these MITAF meetings and argue that look, if a woman is late for one day, we should show understanding. These people are struggling. If they don't pay the loan today, they pay it tomorrow or they pay it next week. Let us be magnanimous to accommodate them. And [MITAF staff] would say oh, the chief executive of [MFI] is not prepared. He himself is not prepared to be a microfinance person because we need to change him. He has not shifted from the mindset, you know. Par-time repayment, full-time repayment, he doesn't pay, he doesn't pay. Ouch! Come on [MITAF staff]. Why are they thinking this way? Well later, we started calculating what it means to the quality of our portfolio... if somebody is to pay us today and failed to pay.
>
> But, today we carry two missions. We have a social mission, we have a commercial mission. How do you blend all of these? And in the process, we cannot reach many of the rural population because of permanently watching OSS, permanently watching productivity, permanently watching FSS, permanently watching our targets. The [MFI] set up, it should have been moving to support more people. It's so focused on sustainability issues that we are missing out on many deserving people (Interview 1).

Is this financial-social dichotomy represented by MFI-MITAF relations reminiscent of work produced by Amin (1972) and Reed (2009), which found the African trade system replaced with colonial-type trade? Central to the dual bottom-line dilemma, as expressed by the MFI above, were diverse beliefs regarding the characteristics of "deserving people" in the sense of people qualifying for loans.

Complexity and nuanced word use are important in discussing PBA conditions. Donor agreement to use common performance indicators represent the scale; however, the measure of achievement on that scale could vary. MITAF's aim was to develop the sector as a place where industry practice standards were the norm. Nevertheless, the actual indicators used to establish standard PBA conditions varied. Perhaps more important were perceptions that achievement was inconsistently determined by a fixed scale. For example, there was a perception that PBA conditions placed existing domestic MFIs in a conditional and contextual disadvantage,

> Procredit at that time was not yet fully established in Sierra Leone. They were just playing with the idea of setting up Procredits. Of course they had their international donor. And when they came, we understood that a tranche of one million dollars was provided to Procredit to commence their business. And because we already had systems, we already had PaR, we already had clients on the ground, we already had challenges on the ground, I mean we are not just conceptualizing an idea. We already, so we raised the point, can somebody be really punished simply because he has put an idea into practice? If I already doing business, definitely, I will have the defaulters, I will have PaRs, that's the nature of our business. So the tranches were in that direction one would see, they may not be purely on conditionalities (Interview 1).

A perception existed that applying the same conditions to both a domestic MFI and an international MFI, without an established business in Sierra Leone, may not give adequate consideration to the particular challenges of the nation that has for years been ranked among the lowest in the Human Development Index. In 2005 ProCredit received $1 million, making it the highest single capital investment made to an MFI and the fourth highest total capital investment made to an MFI during the life of MITAF. Investment and timely grant disbursement may have been, in part, due to existing donor relationships as much as commercially based criteria.[48] In early 2010 ProCredit was sold to Ecobank Sierra Leone due to high PaR and fraud. Official MITAF records suggested that Sierra Leone's fragile state, post-conflict setting may have been central to ProCredit's performance problems. "Considering the ample financing and high level of management capacity and governance, the situation of ProCredit Sierra Leone is concerning and possibly illustrative of the challenging environment for microfinance in Sierra Leone" (MITAF Narrative Report-4th Quarter 2009).

5.2.2.2 MFI reporting requirements in deals

The reporting requirement for MFIs involved substantial work. It was understood and accepted by MFIs as part of the decision to be in MITAF. For many it was also seen as a necessary action to operate a sustainable, relevant MFI. Donors valued the apex role of collecting MFI reports and providing quarterly reports, as well as specific information with requests for disbursement pursuant to satisfying conditions in a deal. There was some concern that on-going MFI reporting requirements were potentially difficult to enforce after capital was invested (disbursed); however, no specific instances were reported.

Reports required in the PBA were varied and took different forms in practice. The *quarterly reports* contained numerous statistics beyond specific performance indicators in the PBA; in practice, MFIs submitted similarly detailed monthly reports to MITAF. *Audited financial* statements were at times challenging to provide. Some external auditors produced suspect reports and MITAF provided training to assist the auditor most used by MFIs. For example, official documents report that normal examination procedures such as loan balance verification, loan classification review, and loan loss verification and examination were not performed. Such expertise and resources are not plentifully available in post-conflict fragile state settings. *Mix*

[48] See chapter three's discussion of ProCredit in the microfinance institutions portion of the case study explanation.

Market[49] was contained in the PBA as part of a broader goal to ensure an environment conducive to industry development. This effort included an industry database, such as Mix Market, that developed from monthly reporting. This reflects the intertwined nature of actions/interactions in MITAF. Most MITAF MFIs did not report to Mix Market and some of those that did were not consistent reporters. Two other reporting requirements involved evaluations. MITAF underwent mid-term and final evaluation and the PBA required MFIs to cooperate with both. The mid-term evaluation included data from visits to eight MFIs, and the final evaluation visited five MFIs with survey questionnaires sent to thirteen MFIs. This reporting approach kept MFI management very close to the operating and market indices of their organization, as well as enhanced transparency with other stakeholders (Duval & Bendu, 2006; 2009; Interview 2).

The connection between reporting and capital disbursement is vivid and important One MFI spoke candidly about reporting information that constrains capital disbursement, mostly because some conditions were considered unfair,

> Person: Here, a bit of culture here. Our customers here, about 80% of them, are farmers. Normally we give to them such, I'm a business man, I'm this, in the end you see they only do business in the off-season, but after which they go back to the farms… The conditions that because of the time. For the past three years, or two years, three years from, we have not accessed loan funds. Any grants from MITAF….But if this is all of us, even those only have about three to four hundred million and us that have 1 point something billion who are all fighting for a 5% PaR, I don't think it's fair.
>
> Like these past two years is a universal disease, and business fall. So even now, even right now, most of our traders, they are termed traders. If that occurred, goods like rice, then that's it. But the price has not moved far, it has been since they bought it, so now what can they do? So they have to default, some of them their final payment has passed. We're not getting money from it. And as soon as his family thinks he owes more than they think he should be, then your PaR starts to increase….This is the thing….We are honest with ourselves. We can say our PaR is 1. But they should not beat us with it. It's just to access the form. We tell the truth, and we tell the truth they refuse to give us the funds, one day, we're going to tell lies, which is not good for business (Interview 10).

This MFI had a loan approved four years earlier, yet had not received a single disbursement. However, it received grant capital totaling over $200,000. A powerful point regarding conditions and reporting was found in perceptions that conditions were unfair, given that a "universal

[49] The Microfinance Information eXchange (MIX), a nonprofit organization, develops the MFI market infrastructure. This is accomplished by, among other activities, providing data sourcing and monitoring tools (CGAP, 2006).

disease" of economic collapse had gripped both Sierra Leone and the world. MITAF official documents also referred to economic conditions in explaining deteriorating loan portfolios across the sector. "The situation [deteriorating loan portfolios] has been exacerbated by the economic downturn" (MITAF Narrative Report-1st Quarter 2010). Consequently, if the desired reasonableness did not prevail, the MFI above suggested that reports could be falsified in the future (i.e., "we're going to tell lies").

5.3 SHOW ME THE MONEY: DISBURSEMENT OF CAPITAL

Disbursement commitment and performance of conditions were central to capital. MFIs developed action/interaction strategies based on them. Apex performance indices were impacted by them. Donor accountability and public scrutiny focused on them. Nevertheless, an empirical investigation found capital volatility with properties and dimensions involving all three institutions: MFIs, apex, and donors. The following discussion moves from the condition and reporting aspect of deals to capital disbursement. Essentially, it was about the money!

The empirical capital disbursement process illustrates the struggle of organizational learning in a context of constraining-empowering tensions, organizational imperatives, and collaborative commitments. It also illustrates struggles of dual bottom-line objectives and administration with ambiguous identity. Using MFI day-to-day business as the point of departure, analyzing capital disbursement expands to the apex efforts to achieve numerous outcomes designed to be mutually enforcing. Apex actions resulted in MFIs experiencing various degrees and types of scrutiny. In turn, at times MFIs did not distinguish between a disbursement request verification visit, donor field visit, and a rating institution assessment. The apex "drowning in data" (Snibbe, 2006), worked to synthesize and summarize to prepare stakeholder communications (Block, 1996), while also being prepared for a plethora of detailed questions regarding the impact and strength of the nascent MFI sector. Finally, donors experienced calls for accountability from above and beneath, working in a complex collaborative that frequently changed cash disbursement processes and, thereby impacted their respective organization's performance.

5.3.1 The act of disbursing capital

The scale expressing the distinctiveness and variableness of the disbursement process was vast, ranging from before an official request for disbursement, to considerably after disbursement approval. One account records how donor behavior seemed inconsistent with supporting the collaborative process,

> And in some cases, the donors even send the money to the MFI before they can meet the conditions… ok, now the MFI has met the condition, all the conditions in the loan agreement, in the grant agreement… go ahead and disburse the money. But there are cases where the donors will just send…(Interview 3).

Similarly, the final evaluation records Investment Committee members doing deals directly with MFIs, utilizing the apex to varying degrees, and investing capital without prior IC approval (Duval & Bendu, 2009) The record reflects an occasion when the IC officially directed the TSP to negotiate more flexible conditions on existing deals; however, accounts like Interview 3 above seem to be outside that collaborative process.

In another account, an MFI had two different loan capital disbursement experiences. In this interview an example was given about an account very close to the espoused process, absent the procedural details.

> And then we agreed on loan terms and conditions, you know, and once we agreed on loan terms and conditions, the formal document was sent to us for the review details and send it back and we agreed on the final loan terms and conditions. There were targets, benchmarks set, you know, so they advance the first loan. Then, they said the second loan, the second tranche, second disbursement would be as soon as you meet performance targets A, B, C, as we agreed upon. So that's one aspect. Once the institution meets that target, and usually within a week or two, the payment is made. So that is in the case of a loan (Interview 2).

This MFI also had a prior loan that was disbursed approximately two years after committee approval. In one official document the delay was connected to a two year delay in consummating the loan agreement. Another official document stated concerns about this particular deal: "The loan approved by MITAF Investment Committee for [MFI] was released in 2008 after [MFI] met the disbursement conditions" (MITAF Annual Narrative Report 2008). Similar to earlier examples of PBA signature delays, capital volatility in this deal was not reflected in certain records used to calculate volatility by most volatility studies. Technically the agreement was not completed until conditions were satisfied. Such organizational behavior conceals a volatility property from traditional capital flow statistical calculations.

Once the PBA was executed, disbursing the investment capital became the focus. The disbursement process, in practice, changed significantly from the design as individual donor imperatives were accommodated to achieve the collaborative goal of providing capital to the nascent Sierra Leone MFI sector. KfW employed an imprest account, which is an account providing MITAF authority to release funds deposited by the donor. This operated much like MITAF's original design, with adaptations illustrative of experiential learning. For example, KfW disbursed all capital for the deal to MITAF upon the MFI satisfying conditions for release of the first tranche. Cordaid, on the other hand, disbursed directly to the MFI. UNDP activity reflects both disbursements to MITAF and to MFIs directly. UNCDF, after crafting the PSD to use an imprest account, encountered organizational concerns involving accountability and the potential for fraud. The collaboration to invest capital in the MFI sector responded to individual organizational accountability imperatives with behaviors affecting capital flow effectiveness, efficiency, and impact. The between donor aspect and behaviors affecting capital flow value (i.e., effectiveness, efficiency, and impact) will be discussed further in the next two chapters.

5.3.2 Capital disbursement: Perceptions, strategies, and impacts

MFIs worked to expand service and operate sustainably and were challenged by capital volatility regardless of cause. This was especially the case for NGO MFIs that embraced the social mandate of serving those on the fringe of credit quality, as much as commercially driven MFIs embraced the financial performance mandate. As the MITAF project support document explained, Sierra Leone MFIs operated in a capital constrained environment and this capital was vital to achieving their dual bottom-line objective.

An analysis of capital disbursements provided a statistical profile of MFIs with the most deals, thus the greatest opportunity to observe variance in behavior and capital flow. A Univariate ANOVA was conducted to investigate *percent* of total number deals differences in capital investments by year (Yes, MFI received a capital investment commitment; No, MFI did not receive a commitment). A summary of results are found in Appendix I along with other descriptive and inferential statistics. The years selected had the highest number of capital investment deals for the MITAF project. The results showed a significant main effect for 2006 capital investment deals, (F (1, 8) =9.876, p = .014, partial η^2=.552), and 2008 capital investment deals (F (1, 8) =11.878, p = .009, partial η^2=.598). The effect size indicated that a large proportion of *percent* variance was accounted for by 2006 and 2008 when looking at the three years with the most capital investment deals. On the other hand, MFIs that received the most capital did not provide more opportunities to observe frequent *interactions* (deals). For example, the four MFIs that received over 49% of the capital invested represented less than 30% of capital investment deals.[50]

MFIs drew upon numerous MITAF capital investment deals to express views of the apex and donors when considering a mission mandate to serve communities. Representatives from this MFI shared, with conviction, the challenge of serving people living in areas where more profit oriented MFIs would not go. One representative spoke of the belief that their vital, urgent requirement for capital would be addressed as donors saw the tremendous need and worthiness of their mission,

> So in our cases we are purely relying on MITAF to actually push our business plan forward to ensure that we are because taking into our consideration, our own mission, we are there to target the vulnerable, actual poor. So if we don't get into these areas where in we cannot get so much other NGOs that will eventually go there. They have many proposals and making profits. That is their only business. But we are there with a social mission to target these people, to make sure that we develop them to live above the poverty line. So, if we are meeting these constraints in terms of, accessing funds to meet these people is actually a big problem for us. So if only they can, if only MITAF can ensure that we have a direct sort of a direct contact with the donors instead of having this intermediary as MITAF is playing now. But if we have a direct contact with the donors, wherein they can see exactly where we are operating and the constraints we are going through, I believe things can move more faster (Interview 5).

Another view speaks of the impact capital delays can have on MFI integrity and reliability,

> So for now, we are really ready. But the only thing is that we are the fast track the disbursement. Because, like for instance, if you've already talk to a client that I will disbursed to you, and blah, blah and you failed to do that. They'll start calling you, that person's lying. They don't even have the capacity. Already you've talk to them. You have done your document, and you have the go ahead from MITAF…(Interview 5)

Official MITAF documents from November 2009 recorded one property of capital disbursement practice that could apply to the view shared above. This property is also found in MITAF official documents reporting on the quarter ending December 31, 2009 and addressed a grant deal where disbursement conditions have been satisfied,

> The grant approved in mid February 2009 for (MFI) by [donor] has not been disbursed by end of this quarter despite several reminders by the TSP. These delays have impacted negatively on meeting outreach targets as MFIs have not received the needed funds to expand outreach (MITAF Narrative Report-4th Quarter 2009).

---

[50] Two of these four MFIs are included in this study's interview sample.

Interview data from the donor in this grant deal, combined with disbursement empirical records, were examined and interpreted this excerpt as pertaining to the *accountability* property of the bureaucracy category. Accountability processes at the donor both contributed to disbursement delays and MFI accountability activity involving its community stakeholders.

Many capital disbursement experiences fit closely to the illustration below. All participants acknowledged that unsatisfied disbursement conditions were factors in the capital disbursement process,

> Secondly, most of the institutions will not meet the criteria at once, it's difficult for one institution to meet all the criteria, but if you have 75% of the criteria met, the institution will say ok, we will or provisionally approve of this funding until you can go and meet these 20 or 25% once you meet the 25% then we'll release the money. That's where some kind of delay comes in. The institution takes looooooong sometime to meet these criteria and so by the time they meet the criteria and they send it back to the institution, and then because it's been a period of time before, so the institution takes time to respond, you have to wait sometimes a looooong time before it comes because things are moving. So if the institution acts very fast to meet the 25% criteria and send it back within that timeframe, then the institution, the organization can respond quickly, but when you take so much time there are things, you know, higher priorities emerge and then that particular need get you know, subsumed, you know submerged…(Interview 4).

Both prior research and the MITAF experience supported the importance of institutional strength to the value of aid and aid absorption. The net value of capital flow in MITAF was shaped not only by volatility, but MFI condition at capital disbursement time. The interview excerpt below illustrates one approach used to support MFI development when MITAF deemed the MFI to be weak institutionally,

> Because they are weak. We have to buy and we have to give them the equipment, the motorbikes whatever. But for some mature institutions, we give them the money, but we make sure they give us a budget. They give us a budget, put down whatever it is they're going to buy and then we give them the money and they move the money to the operation officer and they have to follow-up and then they buy the equipment that they promised to buy (Interview 3).

Disbursement conditions are a mechanism designed in part to ensure MFIs are prepared to effectively and efficiently employ capital investments to impact target populations.

It seems disbursement conditions could have been more effectively employed with a focus on MFI condition over MFI performance,

> Investigator: …Institutional conditionalities for disbursement. Whether it be a loan or a grant, and you gave me an example where we might call it capacity building.
>
> Respondent: Yeah

> Investigator: Can you talk a little bit about the use of that indicator in making a disbursement decision?
>
> Respondent: I must say that these type of indicators were not very often proposed by the TSP. These were the type of things that we came up later with a, with making really the contract. Because when making the contract then…you want to put incentives and specifically, when you make a combination…of a grant and a loan, also you want to know that what happens with…the loan is also reliant on making good use of the grant (Interview 7).
>
> I mean one, one point that is quite, quite striking is for example, the very heavy case load of loan officers. And sometimes a loan officer has to serve up to six, seven, or eight, even eight hundred clients, which could not be deemed as effective and productive anymore because these amounts are simply not manageable by loan officers. But MFIs abstain from hiring and recruiting new staff because their operational costs would have increased and they would have, they would not have met certain objectives. So institutional, institutional development was, was kind of hindered by, or at the expense of of fulfilling the MITAF criteria…(Interview 9).

The dual bottom-line objective of social targets (e.g., outreach) and financial targets (e.g., PaR, OSS, and FSS) were important measures in MITAF. Nevertheless, critical to developing a sustainable pro-poor financial sector were strong MFIs, as measured by institutional factors. Low volatility capital, disbursed judiciously and expeditiously by MITAF, was observed to improve MFI institutional strength. Unfortunately, investments did not often appear to focus on institutional weaknesses in substantial amounts.

5.4 SUMMARY

This chapter portrayed the MITAF process from the time a decision was made to invest capital in an MFI through the disbursement of each tranche from the donor until all money was available to the MFI. Rich, vivid, detailed accounting of the design and actual processes was presented. The process designed was formally adjusted to account for intervening conditions. In contrast to violating order, order was redefined as reflective or organizational learning. Of the various targeted outcomes, organizational behavior clearly indicated it was about the money, not only effectiveness and efficiency, but also flow.

Capital investment and disbursement (i.e., capital flow) was always pursuant to deal formalization in a performance based agreement. Espoused formalization process particulars varied by deal. At times formalization employed working rules inconsistent with official procedures. Also, capital investment deal provisions were viewed and implemented differently by participants in the deal. Capital volatility properties embedded in participant behavior were observed.

Accounts in the previous section raised one of several factors related to capital volatility and is explored in the next chapter's linkage analysis. Several accounts have been reported where participants viewed some MITAF conditions as questionable or inappropriate. One participant recounted a conversation involving an MFI that disagreed with MITAF's philosophy, "I'm disappointed in people like [MFI], He's the guy that is so adamant. The [MFI] guy…Your [MITAF] recommendations are brilliant, but we [MFI] don't share [the views]" (Interview 3). Certain MITAF policy standards did not seem appropriate to some participants for various reasons. On the other hand, none of the standards were more demanding than those provided by industry good practice recommendations. Were there instances when the PSD provision for revising and resubmitting a proposal should have been invoked rather than approving a proposal with conditions that could have been extremely demanding? Perhaps. In the next chapter linkages are explored by presenting concepts excavated from data. With the descriptive illustrations of this chapter as a foundation, the following chapter presents explanations for capital volatility and related organizational behavior that provided the foundation of the CBT substantive theory.

6.0 RESULTS AND INTERPRETATION: BEHAVIOR-CAPITAL VOLATILITY LINKAGES

MITAF participant's actions/interactions affected capital *value* by increasing or decreasing volatility and strengthening or weakening MFIs. That is to say, certain actions added to or subtracted from capital value. Capital flow value in this research was a function of two variables: disbursement conditions, including MFI condition at disbursement; and participant bureaucracy, directly affecting volatility level. The classical capital flow function (i.e., recipient compliance delays, donor bureaucratic red tape/procedures) is an equation that over-simplifies the complexity of connected concepts in variable hierarchies. In this chapter it is argued that, in addition to routine responses to everyday events, it was the strategic, intentional, premeditated actions responding to perceived problems linked to volatility that illuminated and redefined the classic capital flow equation.

This investigation analyzed complexity and interconnectedness that resulted in decision making dilemmas (actions) and volatility in capital flow. The focus was not on categorizing empirical activity codes (e.g., open, axial, selective). Instead, it focused on certain structures (conditions) and the way they interconnected to elicit participant action (Strauss & Corbin, 1998). Toward this end, the chapter presents both a context and intervening condition to analyze action (H. Simon, 1996). The first section presents the context as consummation of capital investment deals in an executed performance based agreement (PBA). The second section presents the intervening condition as the MITAF mid-term evaluation. Of several contexts and conditions in this investigation these two not only accounted for substantial variability, but possessed interesting properties not explored extensively in the traditional literature. In the third section it is argued that leadership and cultural affects are found in a 2007 apex leadership change. Global organizations are challenged in assembling effective multicultural leadership teams.

The fourth section portrays MITAF as structure and processes defined by collaboration between eclectic organizations. Participant organizations—MFIs, apex, and donors—were in their positions ostensibly avoiding the forbidden, yet doing what was required or permitted by

MITAF participation. Participant perceptions concerning other's position and responsibilities were often fundamental in linking variation in behavior and capital flow. Capital flow to MFIs was considered vital to economic growth, improved living standards, and economic stability because it was central to facilitating expected behavior from all MITAF participants, notably accountably collaborating to produce effective, efficient, poverty-reducing outcomes (e.g., capital flow) in a sustainable fashion.

Linkages between organizational behavior and capital flow volatility involved complexity and interconnectedness. This complexity and interconnectedness were best viewed by analyzing progression as a process with a specified starting point. It must be noted that behavior and volatility linkages did not function as simply and neatly as this heuristic portrayal suggests. The particular parties involved, past experience of each party, shared experience, and factors within the MITAF case (but outside of the deal) were just a few of the contributing dynamics to complexity and interconnectedness. This chapter's simplified illustrations are not intended to depict the deep, vast complexity and interconnectedness that impacted capital flow value, but rather to provide a logical illustration of the complexity and interconnectedness of organizational behavior and capital volatility. Researchers are often forced, by method and data constraints, to attack complexity and interconnectedness in a manner that produces narrow explanations. At times rigid investigative processes overemphasize technical correctness at the price of not capturing the dynamic flow and quintessence of data. Understanding linkages between behavior and capital flow volatility involves examining interconnections and complexity, rather than assuming them out of the analysis and focusing on a few variables.

Fundamental to seeing linkages between an action and capital volatility is the working definition of volatility. Previously the tranche structure of capital disbursement was presented as a key capital flow process property. Also, distinctions between capital investment resources (i.e., benefit of investment, regardless to form) and actual provision of liquid capital (i.e., money) were introduced. In addition, dimensions of capital flow in this investigation were stipulated as time measures (without focusing on investment amounts). Dimensions are central to understanding volatility's working definition. Measurement began from the time a donor committed to investing and continued until the complete investment was made or disbursed. It did not begin with the formalization of the deal (i.e., PBA consummation). The actions, from commitment to complete disbursement, formed a structured process. More precisely, from the time MITAF was to have delivered the approval letter until the last tranche was placed in an unrestricted account or the resource benefits were accessible by the MFI, mutual understandings formed a structure. **V*olatility is variability in disbursement timing of each tranche from the time a capital investment deal was approved and as measured against the structure of the deal*** *(e.g., length of time to satisfy conditions, and length of time between satisfying conditions, TSP requesting donor disbursement/processing disbursement, MITAF process/procedure).*

Dimensions of volatility in the data were more nuanced than a dichotomy (i.e., capital commitment point, and point of last disbursement). The first tranche disbursement was intended to be universally expedient, but not prior to the prescribed point. Not only was volatility understood through the last tranche's disbursement, but also through the timing of each tranche. *Structuring a capital investment deal* to provide money or other resources, single or multi-tranche, are examples of actions (behavior) linked to volatility. This chapter presents the analysis of this linkage.

6.1 RELATIONSHIP FORMATION: POST DECISION, PRE-MONEY

The first action after approval of a deal was the apex communicating approval to the MFI. Apex actions are integral to capital flow and include PBA preparation, implementation support to MFIs and donors, and disbursement completion. Table 5 contains several key apex actions in the *apex-MFI* exchange, constructed by MFIs, donors, and apex actors. It illustrates how MITAF participant interactions were viewed in this investigation. Approval notification letter delivery and ensuing MFI PBA condition negotiations were closely related, but remained separate and distinct actions. In this section, 2008 and 2009 deals are used to view complexity, interconnectedness, and variability between participants and between years. For example, there was no empirical evidence the apex TSP did not generally administer approval letter delivery and MFI condition negotiations effectively and efficiently. Approval letter delivery and MFI condition negotiations are linked to capital volatility because donors did not disburse capital until the PBA was complete. Also, this section examines an apex leadership change. Apex perspective and practice moved from a dimension of a northern hemisphere attributes to southern attributes. The 2007 apex change had capital volatility effects.

Table 5: Apex-MFI interaction.

Organizations Interacting	Action/Interaction
Apex-MFI Interaction	Notification letter
	PBA-negotiate conditions
	Monitoring satisfaction of conditions
	Trainings
	Technical Assistance
	Advocating for capital disbursements
	Flexibly/Rigidly administering condition satisfaction assessments
	Communicating program emphasis (e.g., sustainability, outreach, dual objective)
	Notification of condition satisfaction and request for disbursement
	Reporting MFI performance

In practice, *apex-MFI* interactions were not the sole purview of investment deal condition negotiations. Evidence reveals donors were actively involved with MFIs, especially in loan deals (Interview 3; Interview 7). As described in the prior chapter, this illustrates that MITAF became a learning organization, adapting to operational realities as they appeared. The evidence suggests that *donor-MFI* interactions produce different conditions, at times, from those agreed to in IC meetings. On occasion direct donor involvement created greater leniency in disbursement conditions, which could result in lower capital volatility. Direct donor involvement in PBA condition negotiations was linked to capital volatility because information asymmetries (e.g., unequal access to certain information by the parties due to limited access to each other) were reduced and donors better addressed their interests in concert with MITAF goals. Also, direct donor involvement added another step to the PBA completion effort. Donor-MFI interactions increased or decreased capital volatility.

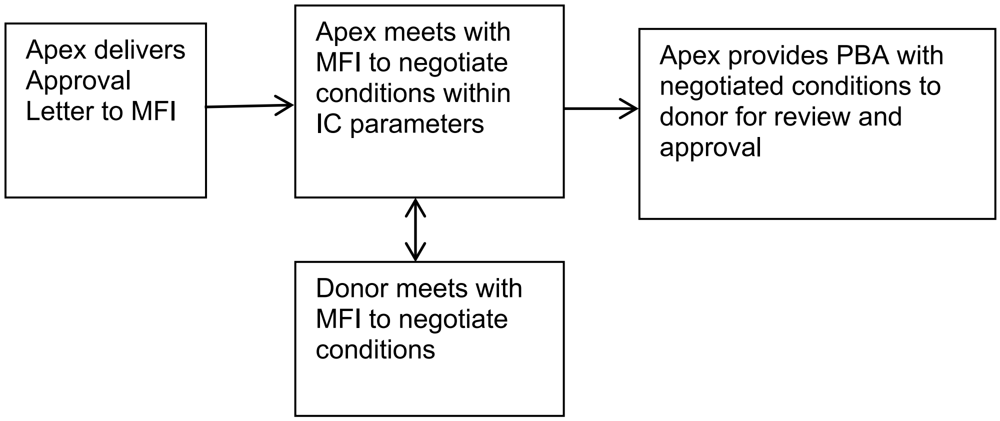


Figure 6: Performance Based Agreement context.

Figure 6 depicts complexity in the PBA context. Two or more organizations interacted directly with a MFI at different stages to varying degrees, depending on the deal. All parties and interactions worked to implement IC approvals: *apex-MFI, donor-MFI, and apex-donor*. Direct donor-MFI contact did not necessarily reduce time or add time to the PBA completion process. Nor did it necessarily result in conditions different from those reached by apex-MFI condition negotiations. Effectiveness and efficiency in certain organizational settings were served by greater intimacy between parties to a deal.

Donor-MFI interaction dimensions extended from better quality, less filtered information shared between parties to delays in receiving information needed for compliance monitoring. There was evidence that donor-MFI interaction placed a greater focus on strengthening institutional capacity over financial performance than by apex-MFI condition negotiations (Duval & Bendu, 2009; Interview 5, 20:37-48; Interview 7, 10:00; Interview 9, 27:30). On the other hand, donor-MFI direct contact did add complexity. This complexity accounted, in part, for PBAs not being executed in a timely fashion. For example, official records suggest that a loan PBA was not executed for two years after the terms were negotiated by the donor (MITAF Narrative Report-Annual 2008; MITAF Narrative Report-4th Quarter, Annex R). In another instance, the apex responsible for monitoring and reporting on MFI PBA compliance had not received the donor-MFI negotiated grant PBA approximately three months after it was completed, nor had the grant been disbursed. In contrast, donor-MFI interaction could reduce the number of apex-donor PBA draft exchanges and allow for finely tuned PBAs as donors and MFIs had increased access to unfiltered information.

Beyond approval notification and negotiating disbursement conditions, additional action/interaction linkages were observed in the PBA context. *Apex-donor* interactions throughout PBA production were central to agreement completion and necessary for capital disbursement. There was considerable variability based on deal particulars and donor imperatives. Interview data reported PBAs always had at least one exchange of PBA modifications between the apex and donor. This required another review by the MFI. Again, direct donor-MFI interactions were linked to apex-donor interactions because of the PBA context (e.g., apex was responsible to notify MFI of approval and is accountable to IC for the deal). There were instances when the PBA had several bureaucratic levels to supersede before execution. For example, in 2005, UNCDF instituted centralized processing of PBAs that required all documents be sent to New York City from around the world. In contrast, another donor provided for PBA signatures and disbursements to be decentralized and processed in Sierra Leone. Loan deals were considered more complex than grant deals. One donor discussed the practical and theoretical aspects of PBA completion,

> The only thing is signing the agreement between the institution and (donor). Back and forth, you know, between MITAF. So you know, sometimes, you missed this. Oh, you forgot this. Oh, you sent it to me I forgot, please send it back to me again. You know, these kind of things. That's, so it's a lot of bureaucracy. But in, really, it's not a big deal. I mean it could take a very short period of time to report this. Once we agree in the investment committee (Interview 6).

PBA completion was theoretically simple and direct; however, as an empirical context, PBAs involved complexity affecting capital flow.

PBAs became more complex in deals that were cross-connected, implicitly if not explicitly, especially when different types of deals (grants and loans) were involved. One donor underscored the importance and complexity of cross-connected deals (i.e., linkages between objectives of different deals in the same MFI capital investment package),

> That's a good issue. Sometimes it's, it's, that happened. That the, the loan and the grant were contracted by different donors and then, then, if, you need to check before disbursement whether they have committed, whether the other, for example, if disbursement was related then to also having disbursement of the grant, so you need to double check (Interview 7).

Another participant provided a scenario illustrating the challenge of linkages between actions/interactions of donor-MFIs in separate deals, but part of the same MFI capital investment package,

> Let's say UNCDF will say ok, we can fund capacity building grant… And KFW will say ok, we have money for loan. We don't have money for capacity building, we have money

for loans, so we can, because institutions request both… But then, if the institution gets the loan before it gets the capacity building money, because, for example, KFW might be faster than UNCDF in terms of processing, then, perhaps, the institution… the loan is given because the grant has to be made so that they can improve the capacity building. But if they get the money for the loan, and they don't have the money for capacity building, then, you know…(Interview 6).

Greater complexity and linkage connections were observed in cross-connected deals. The PBA context is used in Figure 7 to set forth the complexity of cross-connected deals. Donor collaboration and coordination are considered a key output in the MITAF Programme Support Document (PSD). "Strategic partnerships are built with other donors and private sector in joint support of a sustainable pro-poor financial sector" (UNCDF, 2004b, p. 12). The more partners in a collaborative, the more opportunity existed for complexity, including cross-connection deals. This complexity affected capital volatility.

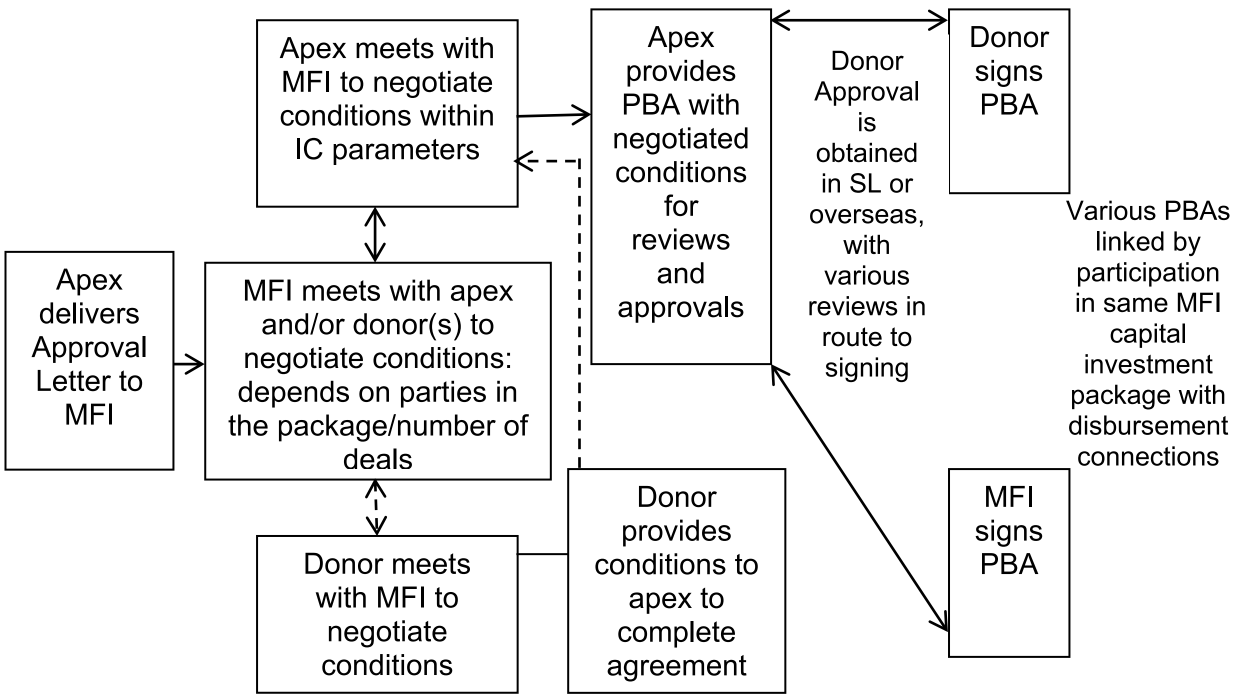


Figure 7: Performance Based Agreement context—complexity of multiple linkages.

Close examination of PBA consummation revealed there were important actions linked to capital disbursement timing and the context of cross-connected linkages. One criticism of the apex in mid-term and final evaluations was the cumbersome financial tracking system. This was related in some measure to the MITAF structure as an entity. Nevertheless, it complicated and constrained detailed analysis of capital flow in deals. Combining analysis of financial records of deals with archival and interview data provided an important perspective on PBA linkages, a prerequisite for capital disbursements. A substantial number of deals revealed cross-connected linkages with complex actions/interactions (*apex-MFI, donor-MFI, apex-donor*).

6.1.1 2009 PBA context: Delayed deals and cross-connections

A good example of cross-connected linkages, and delayed deals was exemplified in the last year of MITAF. There were 16 deals in 2009, totaling approximately $2.5 million USD, the largest dollar amount committed to MFIs for a single year and the third largest year for number of deals. Five MFIs representing twelve deals (over 2/3 of 2009 deals) approved in February and November 2009 experienced PBA delays. The deals involved three of the four IC members (UNDP excluded). All twelve deals primarily involved donor delays. The length of time these PBAs were delayed was the minimum time capital flow was delayed; capital disbursements delays could have been extended for other reasons. Delays due to PBA matters did not consider action/interactions after PBA completion that added additional delays, such as the MFI not satisfying conditions for disbursement. Moreover, cross-connectivity was observed among deals in 2009.

6.1.1.1 February 2009: Six deals with three donors

PBA delays from February 2009 IC approvals involved six deals. Table 6 frames the deals, MFIs, and donors involved. Three deals involved one donor (Donor 09a) and the agreements were completed in the fourth quarter of the calendar year (over six months later). The other three deals involved two donors (Donor 09b, Donor 09c). Two of these deals were with one donor (Donor 09b), involving one MFI (MFI 09b), and the agreements were completed by June 30. Completion occurred after the 30 day window within which PBAs were expected to be completed. The following is a discussion of the last of these three deals with Donor 09a and Donor 09c, which illustrates cross-connected linkages and complexities.

Table 6: Deals, MFIs, and donors 2009.

MFIs	Donor 09a	Donor 09b	Donor 09c
MFI 09a		November 09, Grant and Loan	
MFI 09b		November 09, Grant and Loan	
MFI 09c	February 09, Grant*		February 09, Loan*
*Cross-connected deals			

Donor 09a was party to a February 2009 deal cross-connected with a deal capitalized by Donor 09c (Figure 8). In this instance, the loan capital donor completed the PBA and disbursed capital before the grant PBA was completed. The loan deal was implicitly cross-connected to the grant deal. The grant was for technical assistance by Planet Rating, which conducted an institutional appraisal and loan portfolio due diligence study that provided recommendations. Ostensibly this study provided by the grant deal would inform the apex administering the loan deal's conditions with greater specificity, based on the belief that technical assistance would build MFI 09c's institutional capacity to better employ loan capital. As depicted in Figure 8, the loan PBA was completed by June 30, as was the disbursement. The grant PBA was completed in the fourth quarter, much later than expected and after loan capital was disbursed. This example illustrates potential spillover effects of one donor adhering to time constraints when another donor, whose deal is connected, engages in prohibited actions (e.g., delayed PBA completion). Not only was the MFI impacted, but a donor collaborative partner could have been potentially affected. There was only one cross-connected deal in 2009, but 2008 had eight such deals (20% of the 2008 deals), adding a different dimension of complexity.

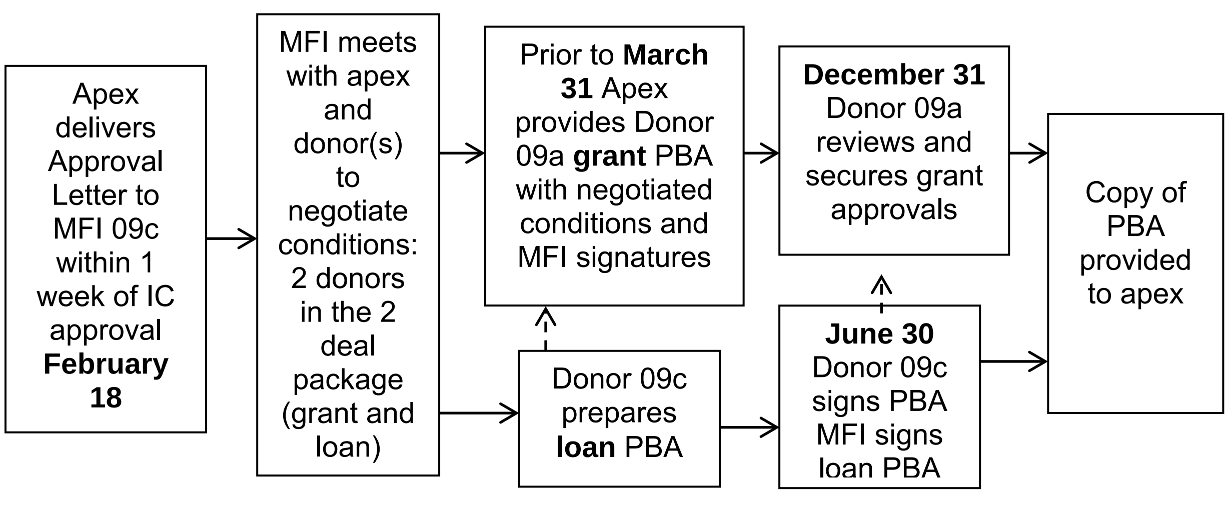


Figure 8: February 2009 Deals with Cross—Connected Linkages and Delayed PBA.

This cross connected deal could have resulted in a longer disbursement delay if Donor 09c waited for grant disbursement before providing capital. Using the timeframes discussed in chapter five, the MFI approval letter is delivered within one week of IC approval with the MFI returning the PBA within two weeks of approval. A close approximation of the minimum capital delay can be computed based on a close examination of this process. The loan deal in Figure 8 involved a delay of up to three months due to PBA consummation alone. The grant deal was possibly extended up to an additional six months beyond the loan deal. If the two deals were implemented to complement each other, then loan capital would have been disbursed after grant capital and, given the grant's delay, the loan deal could have been a year or more delayed.

6.1.1.2 November 2009: A focus on four deals with one donor

An examination of PBA consummation of deals approved in November 2009 provided additional insights on actions linked to capital volatility. Four of the six deals experiencing PBA delays had only one donor (Donor 09b), representing approximately 25% of the total dollar investment for the year. This dollar investment proportion for 2009, the largest of all MITAF years, is a substantial concentration. Drafting of the agreements did not begin until after the New Year. Important and interesting behavior was observed when carefully considering the data on these deals.

Review of official documents indicated two of the four deals with Donor 09b involved one MFI (MFI 09a) where PBA consummation was constrained by the IC, "subject to conditions being met" (MITAF Narrative Report-4th Quarter 2009). More specifically, as another official document put it, "the grant and loan agreements will be processed once PaR30 is 5% or below" (MITAF Narrative Report-1st Quarter 2010). This same donor made a loan investment in MFI 09a in 2006 with the same PaR restriction of 5% as a condition. After over three years of the MFI not meeting the condition, in November 2009 the apex recommended a wavier in recognition of progress made so that the load could be disbursed. A new November 2009 deal was committed to with the same conditions that were waived in November 2009 for a deal approved three years earlier.

MFI 09a events made two other November deals with Donor 09b more interesting. Two November deals did not have an IC constraint on PBA consummation. This was particularly relevant as the record reflected extensive IC discussion about these two deals,[51] both comprising an investment package for one MFI (MFI 09b). Nevertheless, the record shows that PBA work began considerably late on the MFI 09b deals, and then the TSP took action to withhold recommending Donor 09b sign the PBAs due to observing a substantial drop (approximately-20%) in MFI 09b's outreach in the quarter following IC approval. It was reported that the reduction was due to suspended loan activity after detecting fraud in one of its nine branches and wanting to monitor the situation (MITAF Narrative Report-1st Quarter 2010). Eventually, two 2009 loans were approved totaling $650,000 (MITAF Minutes November 2009; MITAF Narrative Report-4th Quarter 2009) for MFI 09b from donor 09b and were adjusted in the records to reflect one loan of $300,000 approved *November* 2009 (MITAF Narrative Report-4th Quarter, Annex R). This formalization suggested that resulting disbursement activity had minimal volatilities and delays; close examination of the detail supported disbursements were made that pertained to the deal consummated months earlier, the *February* 2009 loan deal (MITAF Minutes November 2009).

The point was not that an unauthorized transaction may have occurred, which involved placing conditions on an IC committee directive without authorization. Rather, strategies were employed using noteworthy techniques. Also, the strategies were based on data not normally available if behavior complied with PBA completion policy.

Conditions based on information about MFI performance, such as PaR deterioration, were provisions in the PBA. The IC was also permitted to decide whether a proposal must be revised and resubmitted to allow the MFI to address its weaknesses. IC policies and procedures governed approval criteria, such as having a "good credit history" (MITAF, 2006, p. 5). It was interesting that the IC constrained the donor (Donor 09b) by placing a condition on consummating two deals (MFI 09a). Collaboration could obfuscate one organization as the *bad guy* in such constraining situations. Also, the apex-donor decision to delay PBA consummation in two deals involving one MFI (MFI 09b) was based on MFI outreach data that may not have been available if PBAs were timely processed. In addition, evidence suggested the

[51] A key IC concern regarding MFI 09b, an international MFI forming a Sierra Leone MFI, involved capital structure. It was important that international debt capital be reclassified as equity. This was likely to improve the priority of any donor loans relative to the international MFI's capital (MITAF Minutes November 2009).

disbursement delay actually contributed to the outreach reduction, beyond the fraud.[52] For example, MFI 09b opened three new branches 60 days before the November IC meeting. The branches reduced not only the MFI's financial performance ratios, but likely reduced available cash for loans important to increase and maintain outreach as higher expenses demanded cash. Volatility in the PBA context was particularly clear when apex-donor restrictive action was compared to donor 2008 PBA consummation action for another outreach-challenged MFI. Such a comparison is provided in the next section.

There are various explanations of PBA delays and how they impacted capital volatility. Delay in PBA commencement and completion were at times related to IC imposed constraints. Consummation delays were also due to strategic, intentional, premeditated actions responding to perceived problems, such as MFI outreach contraction. At times, efficient document processing was a contributory factor. In 2008, MITAF had fewer PBA consummation constraints and PBA disbursement conditions were relaxed from industry standards. PBA delays were important action-links to capital volatility because capital commitment notifications after an IC meeting, though perhaps real to the MFIs, were not formalized outside the PBA. They were, therefore, not tracked transparently and capital volatility was not constrained.

6.1.2 2008: PBA condition differences and UNDP & YES

Examination of 2008 capital commitment formalization identified actions linked to capital volatility, including dimensions of MITAF capital volatility. In 2008 there were 21 deals totaling approximately $1.8 million USD, the third largest dollar amount for a single year and the largest number of deals for a year. A UNDP program new to MITAF, Youth Employment Secretariat (YES), completed paper-work (Memorandum of Agreement) in early 2008 to pave the way for participation in MITAF and was a capital source for UNDP to invest in five of ten MFIs approved by the IC for capital investment. UNDP/YES provided approximately 48% of the amount approved for capital investment in 2008. Moreover, each MFI selected for UNDP/YES capital investment received both grant and loan capital. The significance of *capital types* was

[52] Although it is not suggested that fraud and malfeasance is an everyday occurrence, fraud in branches and various departments in financial institutions around the world is not infrequent and is a matter requiring constant vigilance. In this instance, the officer involved at the branch was dismissed and by March 31, 2010 OSS increased over 10% to approximately 100% while the increase in PaR afterward was less than 100 basis points.

investigated utilizing a Univariate ANOVA. The *percent* of total number deals differences in capital investments by year, by type of deal (results summary is in Appendix I) was examined. Except for 2008, all main effects and interaction effects were not significant. Results revealed that the deal type *grants and loans* (M=10.30%, $\mu_{1/2}$=9.2%) in 2008 significantly differed in percent of deals from all other types (*p*<.005). The 2008 main effects (F (2, 4) =7.0, p = .049, partial η2=.778) represent the amount of variance in the percent of deals accounted for by types of deals. UNDP/YES is noteworthy because each of its recipients was provided grants and loans and it represents a substantial proportion of 2008 investment. Also, there was no evidence of PBA delay, dispute over conditions, post-PBA consummation disbursement delay, or premature disbursement criticism. The noteworthiness primarily resides in the profile of MFIs receiving capital; which, as a group, are leaders in the number of capital investment deals in MITAF.

6.1.2.1 MFIs qualifying for capital investments

UNDP capital disbursement to MFI unfolded efficiently and effectively. A memorandum of understanding was executed between MITAF and YES early in the second quarter of 2008 and the IC met in March, May and July (UNDP was the agent for YES). Expected timeframes for key tasks were reported or were inferred from observed events. The records reflect the investments were approved at May, and July meetings; therefore, PBA completion was expected to be the end of June and August respectively. There were no official records reporting this occurred; however, nothing refuted it. For example, PBAs outstanding from the March 2008 IC meeting and afterward were specifically disclosed in the 2009 first quarter narrative report; UNDP/YES deals were not reflected as delinquent. These 2008 PBA completions demonstrated volatility was constrained on numerous occasions.

A closer look at a few MFIs was warranted because between-donor variability in actions occurred in capital investments. Three MFIs were approved for capital investments in both 2008 and 2009. Looking at the loan portfolios of these three MFIs provides some insight on conditions that may have been included in the PBAs, or at least insight on how disbursement decisions were made. As pointed out earlier, donor-apex-MFI negotiation of PBA conditions is central to timely PBA completion and condition specifics central to capital disbursement timing. Two of three MFIs (MFI 08c, MFI 08d) maintained a portfolio-at-risk (PaR), the percent of loan balances over 30 days late, at an acceptable level in 2008 and 2009. The other MFI (MFI 08e), approved for both grant and loan capital at the July 2008 IC meeting, had chronic challenges.

In 2008 the loan portfolio of MFI 08e did not meet industry standards (e.g., PaR and write-off levels). During each quarter of 2009, PaR and the amount written off as uncollectable (WO) struggled to improve. This information is provided in Table 7, which compares MFI 08e with MFI 09b. Strengthening the MFI 08e portfolio was very slow, reflecting a bumpy improving trend. Especially encouraging progress was achieved after short-term technical assistance focusing on PaR reduction was provided during the first quarter of 2009. In November 2009, the IC approved another grant and loan investment package for MFI 08e. The loan amount was almost twice the UNDP/YES loan, with the explicit stipulation that disbursements were conditioned on a PaR below 5%. The loan PBA was completed before year's end.[53] As of March 31, 2010 MFI 08e's PaR was almost 9% (0% WO), a 40% decrease in PaR and WO from a year earlier. The reduction from June 2009 to March 31, 2010 was over 20%. Yet, it needed to decrease another 40% in the following two quarters for MFI 08e to receive a disbursement within a year of the November IC approval. That was a very tall order. In contrast, all indications were the 2008 UNDP/YES grant was totally disbursed by December 31, 2008 and the loan was disbursed in two tranches by June 30, 2009. As of June 30, 2009 MFI 08e's combined PaR and WO was over 11% (7%, 4.11%), considerably above industry standards. Perhaps more important was MFI 08e's combined PaR/WO decreasing approximately 2% during the disbursement period of the July 2008 deals.

[53] This was based on the deal not being listed among PBAs incomplete as of December 31, 2009.

Compare this MFI 08e experience in 2008 and 2009 to MFI 09b in 2009, where the apex withheld a recommendation for the donor to sign the MFI 09b PBA because of a reduction in outreach. MFI 08e experienced less volatility than MFI 09b, but MFI 08e performance indicators were not better than MFI 09b. The dimensions of actions linked to capital volatility are vivid. As reflected in Table 7, Two 2008 deals for MFI 08e experienced timely PBA consummation. In addition, MFI 08e was approved for additional capital investment in 2009 (grant and loan), even while performing below industry standards and with outreach challenges. The 2009 PBAs were competed timely. In contrast, MFI 09b experienced a reduction in outreach that resulted in a several week postponement of PBA drafting. Official documents available at the time of the investment decision characterized the 2009 outreach reduction as “slight” and forecasted increased outreach (MITAF Narrative Report-4th Quarter 2009). Furthermore, there were additional delays due to strategic, intentional actions utilizing information on events that would not have been available (and may not have occurred) with the timely processing of PBAs. The scope of organizational response dimensions related to outreach reductions reflected variations in behavior.

The three MFIs involved in 2008 and 2009 deals (MFI 08 c, d, and e) illustrated how PBA completion occurred with substantially equal dispatch in 2008, apparently with conditions more lenient than industry standards, where disparate MFI performance existed. The result was minimal capital volatility, with portfolio quality improving into 2010. Also, an under-performing MFI (MFI 08e) received desperately needed liquidity to respond to outreach demands after seeing an outreach reduction of approximately 30% from 2007 to 2008 (MFI 08e experienced 8.6% growth 2008 to 2009, compared to MITAF MFIs overall growth above 20%).

Table 7: MFI 08e and MFI 09b comparison.

Indicator and Event	MFI 08e	MFI 09b	Comment
PaR/WO information at time PBA to be completed	• 9.34%/1.99% 4th quarter 2008; • 8.73/2.78% 3rd quarter 2009	<5%/0% 3rd quarter 2009	MFI 08e 2008 best information available; November 09 decision based on 3rd quarter information
Outreach at time of PBA • July 08 • November 09	• 2008 30% decrease from 2007; • 2009 increase 8.6% (MITAF increase 20+%)	• 12% increase from 2nd quarter to 3rd quarter 2009 • 1% decrease from 3rd quarter to 4th quarter 2009 • 19% decrease from 4th quarter 2009 to 1st quarter 2010	• MFI 08e received capital investment during year of 30% decrease in outreach, the following year reflected outreach growth • MFI 09b did not receive capital investment when experienced small decrease in outreach, downward trend continued.
Timing of PBA	• July 08 IC grant and loan deals, PBA completed by January 1, 2009; • November 09 loan deal, PBA completed by December 31, 2009	Two November 09 deals: drafting started after December 31, 2009	MFI 08e grant deal total and loan deal first tranche disbursed by December 31, 2008, so PBAs were likely completed close to expected timeframe
PaR/WO information at disbursement time	• 9.34%/1.99% 4th quarter 2008; • 6.82%/2.02% 4th quarter 2009	• 5.11%/0% 1st quarter 2010	MFI 08e was basically stable from 4th quarter 2009 to 1st quarter 2010: 8.94%/0%
Timing of disbursement	• First tranche by 1st quarter 2009 (2008 total grant); • Second tranche (2008 loan final) 2nd quarter 2009; • 2009 deals not disbursed by March 31, 2010	2009 deals not disbursed by March 31, 2010	

6.1.3 2007: Apex change in perspective and practice

A change occurred in 2007, reflected in 2008 activity, with consequences for MITAF disbursement processes. It is a noteworthy year for MITAF in several respects. First, there were no deals approved, not one; only an addendum to a 2006 deal. Second, at least $1.2 million USD was distributed to MFIs during 2007. This is particularly important because it was the year that a cash flow crunch was experienced around the world as the Great Recession began to emerge (Brunnermeier, 2009; Isidore, 2008). Third, it was the year after the MITAF mid-term evaluation. The mid-term evaluation occurred in 2006 and, as explained later, experienced substantial activity impacting volatility that affected 2007 operations. Fourth, and perhaps most important for understanding 2007's effect on capital volatility, the apex experienced a leadership change at the Sierra Leone office in October 2007. This leadership change was perceived to move the *perspective and practice* (a *power* category/node) dimension from more of a northern perspective to more of a southern perspective. Although more precise data from various sources is needed to isolate this change variable from the UNDP/YES funding source and MFI profile variables, evidence is too strong to deny an affect.

Empirically, a nuanced, careful view of data adds credibility to perceptions that the perspective and practice property measured differently with the leadership change. This perception was expressed during interviews,

> And again, I don't know when one is African and one is over on the other side, if that difference. But we also saw as an MFI, some dramatic changes of the way MITAF conducted in terms of accessing resources [after chief of party change]…The north-south divide….So south, somebody from the south is not probably because he is white, he is European… I don't want to sound racist. It's just people coming from the north in development paradigms. When we engage them, the way southern NGOs sometime articulate development ideas and the way our northern colleagues also, by no fault of theirs, based on their own background exposure, when you engage in the debate, you see them sometimes taking sides, which, with respect, sometimes you feel I wish they will have shifted. But of course, shifting people is not easy. Shifting south people to north, north people south is quite a challenge eh? In development eh? So you see we are both with on these sides and sometimes some people will hold firmly, eh? (Interview 1).

The following interview excerpt provides an example of divergent perspectives spanning the scale from commercial MFI paradigm (northern) to accommodative developing MFI paradigm (southern),

> And yeah, I was present at the investment committee meeting when the technical advisor [former MITAF chief of party] noted he went on for about 15 minutes talking about the weaknesses of the community banks. And the governor of the Central or the deputy governor of the Central Bank said yes, I hear you, but you know, you think you can try and make them work? (Interview 8).

The following respondents to the north-south hypothesis discussed policies and mutually agreed PBA terms (scope) as experiencing culturally shaped applications,

> Person 2: …While you are within a certain scope, but there are things you need to understand for this to carry. At the outset, they are so many other thinkings. Whatever they [Sierra Leone MFIs] do it's about is he Mende, is he Temne [two different Sierra Leone tribes]. Everything you do, it sounded like that.
>
> Researcher: So the outside of the scope, there's this thinking of these cultural factors that might be, these people they are serving.
>
> Person: Definitely.
>
> Person 2: Even when they are in the same office, that's what, that is the dividing line (Interview 3, Interview 4).

Interviews and empirical capital flow records shaped understanding of the mid-term evaluation's criticism of investor risk approaches. "While there were justifiable reasons for this, the Committee has erred on the side of caution in supporting the larger MFIs, not taking enough risk on the smaller organizations that may well have the potential to become sustainable" (Duval & Bendu, 2006, p. 33). On one hand, the criticism acknowledges the validity of commercial MFI criteria in selecting capital investment deals. On the other hand, the assessment questions the sufficiency of risk taking in selecting deals. This view of criticisms related to capital flow is supported by an earlier criticism in the evaluation,

> [D]isbursement of all types of funding approved by the Investment Committee is tied to the tailored performance criteria…As a result, the little grant funding that has been approved for operating costs and/or the acquisition of fixed assets has been withheld along with approved loan funds. This is counterproductive in that some MFIs – particularly the smaller indigenous institutions that are still experiencing serious difficulties with portfolio quality – are not receiving the very funding that could help increase the institutional capacity necessary to meet the performance criteria (Duval & Bendu, 2006, p. 27).

MITAF disbursement processes were not only observed in different MFI profiles for 2008 investment deals, but in movement along the perspective and practice property of the apex. How PBA terms were interpreted and implemented by the apex were perceived to be different after the north-to-south leadership change. The implication is the apex adapted by changing its cultural application of the MITAF model. PBA cultural application differences were also detected in expressions by southern staffs of northern MITAF donor institutions and in the faith shaped operations of Cordaid. The interview expressions, archival documents, and disbursement record of 2008 supported the claim that the change in apex leadership, north to south, was a factor in reducing volatility experienced pre-2008.

6.2 CAPITAL INVESTMENT AND CAPITAL VOLATILITY

One year that is unique in the pre-2008 experience of disbursement delays is 2006. Capital investment and capital volatility had particular attributes in response to the 2006 mid-term evaluation as an intervening condition. The actions/interactions in 2007 were largely related to the massive activity in 2006. The conditions imposed for capital investment and affected capital disbursement had a stronger relationship between 2006 and 2008 than 2006 and 2009.

In earlier examination of linkages in the PBA consummation context several insightful actions/interactions were observed. The apex and donor postponed document preparation over a month after a November IC approval, with no explicit reason other than perhaps holiday (festive) season and procrastination. Similarly, MFI outreach decline was explicitly attributed to the holiday (festive) season in official documents. The IC actually constrained the preparation of a PBA based on achieving a specified level of PaR, rather than making it a condition for disbursement or deciding a specific proposal be revised and resubmitted. Similarly, the TSP and a donor agreed not to move forward with deal consummation after IC approval upon learning the MFI experienced a large reduction in outreach, which was plausibly related to the delayed action on the approved deal. Participant actions/interactions in the PBA consummation context affected capital volatility.

Linkages between capital volatility and organizational behavior reflected new properties when viewed through the lens of 2006 deals. Remember 2008 and 2009 had several deals where PBAs and subsequent disbursement were processed expeditiously. This was observed to be the case even when an MFI had a loan portfolio performing below industry standards, while demonstrating a slow, bumpy positive trend toward improvement, but showed no signs of quickly rectifying the problem. Conversely, the same MFI was approved for a loan capital investment after disbursements from the prior loan were complete. The loan PBA contained industry standard disbursement conditions required by the IC, with little evidence supporting achievability in a year or less. Adding to this examination of the PBA context deals from 2006 demonstrated the importance of intervening conditions, such as program evaluation, on efficiency, effectiveness, and reduced volatility

6.2.1 Mid-term evaluation: An empirical performance record

Statistical data presented established the importance of one year over another in observing numerous interactions, as represented by number of capital investment deals. Analysis found MFIs with deals in 2006 and 2008, on average, had more experience with MITAF deals. The details of this analysis are contained in Appendix I. MFIs with deals in 2006 averaged 8.04% of commitments for all of MITAF, while those without a 2006 deal averaged 3.74%. MFIs not receiving deals in 2006 had the lowest average percent of all deals of any group not receiving commitments in a year. To miss out on 2006 was to be relegated to fewer capital investment deals. Closer examination revealed 80% of the 2006 deals were for grants only (no loans) and disbursements were paid in both 2006 and 2007; 43.5% were disbursed in each year. It is 2006 behavior that proved to be the touchstone illuminating linkages with capital volatility.

Whereas 2008 and 2009 were primarily to observe linkages and interactions in the context of PBA consummation, 2006 was to observe process differences when program evaluation was introduced into operations. The evaluation was designed to be formative, rather than summative. Its focus as a performance enhancement tool notwithstanding, it was a record of performance and an accountability mechanism.

Investment committee behavior demonstrated a keen awareness of the imminence of the mid-term evaluation. IC meetings took place in March and November 2006. In the March meeting seven deals were approved involving seven MFIs. The November meeting approved 12 deals involving seven MFIs, including three not involved in March. Although the details of PBA timing were not available for this investigation, available data indicated that four of 12 deals received disbursement in 2006, including two being completely disbursed (invested). The data also show the remainder of the deals were completely disbursed by the end of 2007, with the exception of three large, rather complicated deals.[54] The deals approved in 2006 and 2008 were disbursed with the least capital volatility of all the years. In 2008 capital volatility was primarily related to fewer PBA consummation constraints and disbursement conditions relaxed from industry standards. In 2006 this investigation attributed it primarily to self-interest associated with accountability in the MITAF mid-term evaluation. Table 8 shows how a greater proportion of deals in a year experienced quicker capital disbursements in 2006 and 2008 compared to 2009.[55]

Table 8: Percent of deals disbursing dapital—by year of IC approval.

Year of IC Approval (2007 had no deals)	**% of Deals with Disbursements within 6 months of IC approval**	**% of Deals with Disbursements 7-12 months of IC approval**	**% of deals with Disbursements 13-18 months of IC approval**
2006	15	50	15
2008	0	65	25
2009	17	17	6

Were the deals in 2006 more simply structured than in later years? Although, only three loan deals were involved, eight of the deals were cross-connected.[56] Fewer loan deals made 2006 less complicated. However, cross-connected grant deals, even the type in 2006 (i.e., pro-rata commitments, not linked by conditions), were still fraught with challenges of reaching agreement on conditions and obtaining all the signatures. The deals of 2006 were not substantially simpler than later years.

[54] Two cross-connected loan deals totaling $952,000 USD involved the Finance Salone transformation. The third loan deal for $350,000 USD had complexities involving several contributing sources. Official records indicate the PBA was not consummated for two years after agreement was reached. In addition, official documents report the conditions for disbursement were not satisfied. Finally, corroborating interviews suggest the application of the conditions did not consider the minimum acceptable performance, but was administered based on 100% compliance.

[55] Precise data could not be located on disbursements that occurred early; however, interview data provided sufficient evidence to substantiate that it occurred.

[56] Five loan deals were involved in 2008 (25% of deals) and eight in 2009 (47% of deals). Eight cross-connected deals were involved in 2008 (20% of deals) and one in 2009.

Were the MFIs performing better, such as in accordance with industry standards, in 2006 as compared to 2008 and 2009? Leading up to, and including 2006, economies around the world were still growing. So, it was plausible the MFIs' performance may have substantially slipped in 2007 due to the Great Recession. Data to carefully assess this was not available for this study. However, the mid-term evaluation report (Duval & Bendu, 2006) provided important observations that can be juxtaposed to later years,

> Rapid assessments carried out in 2004, immediately after project inception, showed that all of the NGO microcredit programs that were initially financed (ARC/Finance Salone, World Hope/Hope Micro, CEDA, ARD and CCF) had significant institutional weaknesses. In most cases, the programs themselves could not accurately measure basic performance ratios like operational self-sufficiency and PaR due to the lack of adequate systems and financial management capacity (p. 25).
>
> MFI performance targets related to PaR have been included in the project grant agreements, and it is clear that most institutions have made considerable progress on improving the quality of their portfolios. Nevertheless, the current PaR within a number of the partner lending institutions is well above internationally recognized good practice, and jeopardizes their potential sustainability. Another indicator of portfolio quality is the loan loss ratio, which is also extremely high in several of the MFIs. In many cases, a significant portion of the PaR and loan losses can probably be traced to serious incidents of fraud within the institutions (p. 15).

As of June 30, 2009 the MFIs approved for capital investments in 2006 had operating self-sustainability (OSS) ratios above 100% (indicating self-sustainability), except three. This indicates improvement, not deterioration, from 2006. Furthermore, all initially financed MFIs referred to in the evaluation had OSS over 100%. Compared to 2006, the MFIs were doing generally better in 2009.

The most outstanding difference between 2006 and other years is the mid-term evaluation. Due to some mid-term evaluation details not being available in the archival data, estimates on the start of the process were made based on the process for the final evaluation. The draft Terms of Reference were likely circulated to stakeholders in approximately March 2006, the time of the first IC meeting. At that IC meeting eight deals were approved totaling over $645,000 USD. An early version of the *Investment Committee Policy and Procedural Manual* was dated July 2006. Not only did the Manual espouse tighter procedures and more explicit donor funding requirements, but empirical evidence of 2006 seemed intent on proving it. Early disbursements for the March deals began in August and September. An official document records the evaluation began with phone calls to stakeholders on September 6 and on-site examination was conducted September 18-30. Evaluation results were provided in an Aide Memoire to MITAF and other stakeholders in a meeting after the mission ended September 30,

2006. One of the findings of the mid-term evaluation was that "The procedures still in place for disbursing donor funds to partner lending institutions are unwieldy and contribute to unnecessary and disruptive delays in financing" (Duval & Bendu, 2006, p. 33).

The capital investment machine worked to demonstrate and create an empirical record that MITAF, as of 2006, was an improved, learning organization. October produced further refinements to the Manual, demonstrating official action taken to improve operations in a transparent, accountable manner. The November IC meeting approved 12 more deals totaling over $1.9 million USD. Also, investment disbursements continued in November and December for March deals. Unlike 2009, 2006 did not experience increased capital volatility due to the holiday (festive) season. The 2007 New Year continued this cycle with investment disbursements beginning for the November deals: February, March, May, and July. The mid-term evaluation intervening condition accounted for substantial variation in the linkages between behavior and capital volatility.

Beyond the focus of this investigation, a particular attribute involving MITAF's evaluation emerged that impacted the MITAF case: MITAF 2. Final evaluation of MITAF's initial project was as much a feasibility study for the next round of MFI sector support as it was a summative evaluation of the project. Both the mid-term and final evaluation were conducted by the same lead evaluator. Since several key problems related to broader outputs of MITAF cited in the mid-term evaluation were not resolved, actor focus at the end of MITAF was on how to move forward differently and better. This included matters of capital volatility. In summary, a MITAF successor would not be a *project,* but an *entity*. The entity would be capitalized by donors and other investors, have a governing board, and most importantly take ownership and control of assets. This includes ultimate responsibility and accountability for asset effectiveness. For example, if MITAF 2 grants a loan to a MFI and it is not paid back, the MITAF 2 entity incurs the loss. In this example MITAF 2 experiences a reduction in its capital due to a loan loss and foregoes expected revenue from the loan. Shaping collaboration to realign accountability, effectiveness, and efficiency explains in some measure capital volatility in 2009. Nevertheless, the last year of MITAF contained the largest total dollar amount of deals approved of any year, and vividly illustrates complexity in cross-connected linkages.

6.2.2 Time in MITAF

Fundamental to understanding different perspectives of volatility was MITAF's expressed intent about timeframes in both original design and formalized adaptations. Also, very important were words or deeds that were not official or formalized. These reflected organizational imperatives that strained collaboration and yet-to-be formalized commitments. It was explicitly clear as late as 2007, more than half-way through MITAF, that payment of the first capital disbursement (first tranche) was to occur one month after providing the MFI an approval letter. The MFI approval letter was to go out within one week of IC approval. The donor capital was to be on-hand for MITAF within two weeks of IC approval. Conditions were negotiated with the MFI and, when approved by the MFI, the PBA incorporating these conditions was returned to MITAF within two weeks of approval. Implicitly the donor signed the PBA within two weeks of the MFI returning it to MITAF. The implication was found in the fact that MITAF was the donor's designated agent in negotiations and donor capital was expected to be on-hand for disbursement within two weeks of IC approval. The first tranche of capital was to be disbursed to the MFI within two weeks of PBA consummation. To be clear, both pre-mature and delayed disbursements could detract from capital value. However, in a country with a nascent MFI sector that is resource constrained, a program intent on "rapid development of the microfinance sector" strove to minimize extraneous delays in capital flow (UNCDF, 2004b, p. 6). Disbursements that occurred differently than the formalized plan and official procedures constituted capital volatility.

John Tucker, a MITAF architect and coauthor of, *Microfinance Sector in Sierra Leone: An Assessment*, explained the big-picture connectivity of capital commitments, timing expectations, executive focus, and strategic action,

> During the Sierra Leone sector diagnostic, one of the issues we heard from the CEOs of the microfinance institutions, was that the CEOs were spending 50, 60% of their time going door to door to prospective funders to raise funds. They all liked the idea of an investment committee [IC] where they could make one application, and if their business plan was accepted, they would not have to reapply in future years, but rather, only focus on meeting their performance targets in their business plan that were mirrored in the agreement with the IC. If they met minimum performance standards, their annual tranche of funding would be released. So this helped streamline a lot of the transaction costs of mobilizing funding for them. It was one stop funding for them. (Tucker, 2011)

Time in MITAF was not viewed as a flexible framework to guide action. Time allocation was important and a very serious matter. Streamlining and reliability of commitments were important. Remember, MITAF was developed with a sense of urgency and a driving imperative for immediate change.

6.3 A COLLABORATIVE OF DIVERSE ORGANIATIONS: APEX, MFIS, DONORS

As reflected in Tucker's remarks, from the time of PBA consummation all participants were in their positions ostensibly avoiding the forbidden, yet doing what was required or permitted by their MITAF participation. MFIs were serving their clients, working strategically to accomplish their goals to further their mission, while simultaneously abiding by their PBA commitments. Tucker speaks of MFI CEOs focusing on business plans rather than raising funds. The PBA sets forth a teleological ethical framework for MFIs to decide on resource deployment. "Funds provided pursuant to this Agreement shall be used to achieve these results/milestones. The **Recipient Institution** shall be free to reallocate resources as needed in order to produce the expected results" (PBA Template). In other words, the MFI was permitted to employ invested resources as it deemed appropriate to satisfy requirements of achieving agreed to results/milestones.

The apex worked to realize the same results/milestones. Different techniques and technologies were employed to build MFI capacity, provide capital in accordance with deals' conditions, and monitor the MFIs for achievement and targeted assistance. Donors, as Investment Committee members, met at least twice a year to oversee the project. Also, they had various between meeting duties typical of such governance responsibilities. Also, as capital investors, they monitored MFI reports in their investment portfolios. How each participant perceived the other's position, and the responsibilities of others in light of respective responsibilities, was often fundamental to the variableness of behavior and capital flow.

Environment affects participant perception and related behavior-volatility linkages. The 2009 annual report of the UK Department for International Development (2009) called to mind that Sierra Leone was in the ten year period in a post-conflict state when a peaceful environment is fragile and conflict could reignite,

> Future conflict remains a real risk unless economic growth continues and people's quality of life improves. Poverty remains wide-spread and health indicators are very poor. Amongst the factors causing persistent fragility are: the inability by the Government of Sierra Leone to deliver basic health and education services in rural areas; the threat to economic stability caused by diminishing revenues due to the global downturn; weak accountability to citizens by government and public institutions and lack of employment opportunities for the youth (p. 156).

Behavior and capital flows were affected by achieving results/milestones, such as outreach in rural areas, and MITAF participants' perceptions of actions/interactions in the MITAF case. Capital flow to MFIs was considered vital to support economic growth, improve living standards, and provide economic stability by accountably collaborating to produce effective, efficient, poverty-reducing outcomes in a sustainable fashion.

MFI perceptions of the apex and donors were different and complex. Perceptions were more than an individual opinion, but a strategic assessment of a business association shaped and evolved by factors such as history, information access, representations and experience. MFIs worked to advance their mission while striving simultaneously to satisfy conditions for capital release needed to secure technical assistance, equipment, operating capital, and loan capital. While advancing their mission, MFIs continually assessed the apex and donor in this new partnership. Below are expressions from four MFIs. These different perspectives, provided in their own words, were important to sensing how MFIs viewed their partners in serving the people of their nation,

> Thank you very much sir. You see that the processes of transmitting grants to these MFIs through MITAF is very slow. Ok? So our institution here as a case study is very slow. Because MITAF do peg their grant on the portfolio performance. That is the PaR. That you can only have access to this grant if your PaR is below 5%. O.k. And most of these MFIs operate, cannot meet that target because we have the behavior of our people here towards loans is not good so we cannot get that 5% PaR as MITAF required (Interview 10).

> So in our cases we are purely relying on MITAF to actually push our business plan forward, to ensure that we are, because taking into our consideration our own mission, we are there to target the vulnerable, actual poor…(Interview 5 Others).

On one hand, MFIs believed MITAF did not fully appreciate the borrower's credit culture, the need to "reshift people's perception from charity to self-reliance" (UNCDF, 2004b, p. 4). On the other hand, MFIs viewed MITAF as a vital partner in implementing the business plan.

> They look at your board, they look at your, you know, governance. They look at your operations, they look at management. So basically you have to have a board, you have to have this, you have to have this. You know, most things which come over time. I mean for men like you, I always tell people, the high mortality rates of institutions in the

> south, we have the high mortality of NGOs and MFIs, they are here today, and gone tomorrow. And to sustain them, in order to sustain them and make them not to die, sometimes requires not doing certain things. Let me emphasize. It requires delaying on certain actions and sometimes it requires fast-tracking on certain items to protect it because they are very vulnerable…Everyday people start new ones, new ones, new ones…There is always some confusion, people destroying each other, there's envy, jealousy, and all that. It creates so much bad blood that these institutions will die. So managing them is not as straightforward as where you have all the parameters of legality and all that. [MITAF leadership] wanted everything to be put in place or not to be put in place all in a very simple logical framework. That was where I personally had difficulties in appreciating the MITAF approach (Interview 1).

> The only unfortunate thing is since my being here and three years as manager I have not, not received a cent from MITAF but the accountant and some ministry officials were here during at the time… So I don't know, they can help (Interview 10).

The two MFIs above discussed timing as applied to different concerns: governance as it relates to capital disbursement conditions, and delays in capital disbursements.

> It's just people coming from the north in development paradigms. When we engage them, the way southern NGOs sometime articulate development ideas and the way our northern colleagues also, by no fault of theirs, based on their own background exposure, when you engage in the debate, you see them sometimes taking sides, which, with respect, sometimes you feel I wish they will have shifted (Interview 1).

> But believe me, when we went through it [adding a branch office], and I said this was what [MITAF] deprived us of, the ability to learn, to know. You know. When people are given the opportunity to learn, to know, to test, the learning is stronger. Hmm? For example, they say your portfolio risk should not be x, you know…They say, you know, your loan has been approved but disbursements are delayed until you meet the targets. So they are targets that MITAF sets and usually PaR portfolio risk is one of them, is one of the core targets….Now, so delays can come from the institution not meetings the targets that MITAF thinks should, the institution, should meet, and delays can also come from the donor actually moving…the forms. The challenges, I would say is one, the donor's reluctance to put the money in one basket…it was also not totally under the control of MITAF if a donor has not sent money, I mean what can MITAF do? The money was not in pool of basket. A second challenge of course was the fact that MITAF itself, coming new to the country, did not understand the dynamics of how we, coming from an NGO background, transforming into a microfinance institution, so we are trapped in the transformation process. People measure us as if we are already high class MFIs and not transforming into MFIs. So that was also a challenge (Interview 1).

> But if we have a direct contact with the donors, wherein they can see exactly where we are operating and the constraints we are going through, I believe things can move more faster (Interview 5 Others).

> My thinking is that the donors really don't spend much time looking at it. They depend a lot, rely heavily on MITAF and MITAF prepare like a summary, you know, they send it out and usually…and they make some recommendations. I believe that the donors take

> the recommendations from MITAF fairly seriously and, and they use those recommendations to base their decisions…(Interview 2).

The above responses indicated that MFIs believed MITAF participants viewed development differently. Information asymmetries existed, in the minds of MFIs, involving a powerful intermediary (apex) and the asymmetries impacted capital disbursement delays. MITAF using measurements more reflective of the sectors nascent stage, and donors more directly involved with MFIs were believed to result in decreased capital volatility.

> In terms of releasing monies, I think once the investment committee has approved, I think there was a commitment by these donors to transfer the tranches approved. What was, what was not forthcoming was the MITAF green light [apex organization]. Because even if they have approved, the green light to transfer has to come from MITAF. And that's where the leadership of MITAF, if the leadership is not, well, for lack of a word, if it is not sympathetic to the aspirations to this particular MFI, it can hold on to these or raise the issue that the challenges, that the conditions have not yet been met.
>
> The third challenge of course, was the fact that the very investment committee made of donors, central bank, MITAF. I mean that all the bureaucracy of the investment committee itself was also a challenge….(Interview 1).

Above, MFI perceptions regarding the apex's power and subjectivity in disbursement decisions and collaborative bureaucracy were believed to be related to capital volatility.

These four institutions present a cross-section of different MFI views of the apex (MITAF) and donors when discussing challenges and capital flow. Interviews are not intended to suggest or imply a lack of value or appreciation for MITAF and the donors. Rather, it presents their expressions, in their words, of important perceptions involving action/interaction. The views range from advocate, disinterested party, and partner to gatekeeper and insensitive keeper of the purse.

These perceptions were important for a host of reasons, but in this study chief among them was the type of cooperation and flexibility required to operate in high levels of complexity and interconnectivity. There are difficult challenges in maintaining the positive atmosphere important to living and working in a post-conflict setting, especially when the "going door to door" process for accessing capital was substantially changed, may be to an MFI's disadvantage. For instance, the main options for domestic MFI capital were now collaborating, ostensibly no longer directly accessible, and they agreed to invest capital in new international MFIs. New international MFI investment could have been part of strategy to bolster MFI sector leadership with successful MFIs based in African countries, such as Life Above Poverty Organization of Nigeria. The internationally sponsored Sierra Leone MFIs had no experience, or baggage, from the Sierra Leone market. At the same time, a domestic MFI operating in Sierra Leone for years was required to wait because of having baggage from serving the local market. Maintaining a positive atmosphere could be difficult and complicated. There was little consolation later when one international MFI experienced back-breaking financial losses. Once the poster child for policies, procedures, and capacity building training, the international MFI ended up on the auction block. Nevertheless, it received the money and the domestic MFI was still waiting.

A positive atmosphere, including specific cooperation attributes and flexibility, was important to living and working with high levels of complexity and interconnectivity and was shaped in large part by trust. Trust, as in donors' trust of MFIs, and its importance to future capital investments, has been studied and supported empirically (Gutierrez-Nieto & Serrano-Cinca, 2010). What about MFIs trust of donors? Community stakeholder data was used to explicate linkages of capital volatility and MFI integrity and reliability. Above, data was used to illustrate an MFI's perception that donors encapsulate their interests. Karen Cook, Russell Hardin and Margaret Levi (2005) discuss asymmetrical power by underscoring trust's value and suggesting methods to gain trust from less powerful participants. Their work draws on theoretical and empirical research that examined trust in creating and sustaining cooperation in numerous contexts. One of their key perspectives of trust is "one party to the relation believes the other party has incentive to act in his or her interest or to take his or her interest to heart" (p. 2). They explain it as believing the other party "encapsulates our interest" (p. 5). *This encapsulation of another's interest precisely responds to the question of characterizing power concentration as power asymmetry in the theory of resource dependency.* Actors who would mutually benefit from exchange and cooperation are often constrained by asymmetrical power. Structuring interactions to increase the cooperation level can improve performance indicator outcomes.

Records show many MFIs over the years did not consistently produce outcomes according to industry standards. Only a few reached the point of consistently achieving the PaR standard. Although several attained OSS and FSS standards near the end of MITAF, it was a constant battle for most MFIs. Outreach attained levels beyond expectations; meanwhile, the stress of competition was evident. Capital volatility was an ever present nemesis. As reflected in one official document reporting on the first quarter of 2009, "outreach is at 87,417, 93% and the June 2009 target is 93,000. Meeting the target is contingent on prompt disbursement of approved funds by the donors to the MFIs, which has been delayed in the past and…this quarter" (MITAF Narrative Report-1st Quarter 2009). In the same document an insightful communication to the IC from the Advisory Committee was included, chaired by the Bank of Sierra Leone. "The TSP will initiate renegotiation and release of approved funds to MFIs if conditions have not been fulfilled 100 percent" (MITAF Narrative Report-1st Quarter 2009). Capital volatility is connected to the value of outcomes. And, the value of outcomes *is* the value of capital.

The views of the apex and donors are also important. To protect interviewee confidentially the apex comments will not be connected to the organization. The apex comments and views shared have been sprinkled through chapters five and six. Also, apex interview data was analyzed by fragmentation and reassembling in the concept indicator model of grounded theory. With respect to the apex's views, the best response was to provide an excerpt from the final evaluation about how the apex and its predicament was viewed, a reflection of its perception-guided behavior while in a precarious position,

> While donors and MFIs alike appreciate the services that the TSP has provided in preparing investments (working with PLIs to develop reasonable requests, assessing the PLI capacity to use the funding effectively and presenting requests to the IC), there has always been a conflict of interest for the TSP on the ground… Further, the TSP becomes both "judge and jury" in the untenable position of advising the institutions on their capacity-building strategies on the one hand while assessing their performance on the other (Duval & Bendu, 2009, p. 9).

Donor views of MFIs, apex (TSP), each other and Sierra Leone illustrated their operational philosophies and their approaches to development. For this investigation, philosophies and approaches translate to varying degrees into organizational behavior on matters relating to capital investment,

> Because at the same time we are having pressure on the other end, may be, an MFI wants to know they are getting the money. They are waiting for it. And they've been waiting for some time now. And because it's based on the opportunities so if the funds do not come as fast as they expected then maybe they can just miss the opportunities (Interview 6).

> You see, the donor, the donors are there to support the MFI. The donors are there to ensure the MFI grows, that they grow, they mature, they become sustainable. And if you deny a support, you're killing it. But again, you want to see a vibrant, institution that's going to grow wisely, you know efficiently if the funder provided to them. So all these things are taken into consideration so when the presentations are made like, you know, for funding by the TSP you look at some, some of them, they're weak, but you say look, they're, weak, ok, but what do we do? If we deny them they die. Sometime they operate in certain areas where other institutions are not. And you want to make sure they are in as much as possible you, you cover a lot of areas. Especially inaccessible areas like rural areas where you don't have, you know, access to critical funds for small

> businesses to fight over it. So you want to ensure that each institution survive and can provide its services. So you say ok, it's not too strong, but if it can meet part of the criteria we will do this, you know. Ok, we will not outright deny them. So this is donors, they don't want to deny an institution unless it becomes extremely necessary (Interview 4).

The above donors were cognizant of pressures MFIs experienced from community stakeholders and were pressured themselves by awareness that MFIs were capacity challenged and committed to reaching people in difficult to service parts of the country. The excerpts below reflect how donors differed in their MFI focus, which expressed their development philosophies and strategies.

> And ok, in addition to that, yes, there is sometimes, we're facing conflict of personalities between, because it depends on who you represent…The mitigating thing is that we actually don't necessarily fund the same thing. And we don't also necessarily fund the same institution. So perhaps we can just sit there and see, as some people say, I can fund this. And you say ok, then go ahead. I am not funding that. So, but there will be an institution that you will be interested in and nobody's going to fund it. So you say ok, I will take this one. That's how it goes (Interview 6).

> If you represent [donor] that funds, let's say [amount] or [amount] of the total program, then of course, you might be, you know, in an uncomfortable position towards this [person] because, you know, he can talk louder than you if he wants. Yeah, that, that's what happens actually. It has happened (Interview 6).

> That they wanted, this was their idea how to get their rural access going, community banks. And yeah…at the investment committee meeting…for about 15 minutes talking about the weaknesses of the community banks. And the governor of the Central or the deputy governor of the Central Bank said yes, I hear you, but you know, you think you can try and make them work. Can you put the TA [technical assistant] in to make them work? And, you know, it was, it was an agreement, that as a package what we had, we thought, you know, was a good group of institutions to help build a sector in Sierra Leone. Now, some of those community banks are still having trouble. A few of them may be viable, but we haven't gone beyond those four (Interview 8).

> I would say yes it's quite a favorable environment, that's why internationals like LAPO and BRAC entered the market. I think MITAF, MITAF was, instrumental and also contributed to the entry of these two big players…But of course there is still room for improvement. And my major concern is the absence of second tier regulations. That means that, that transforming into, into a deposit taking MFI is not that easy…and that, yes, for a country like Sierra Leone, being at the bottom of the human development index and having experienced an eleven year civil war, the microfinance sector is doing pretty well (Interview 9).

Donor, apex, and government interactions involved strategies that, at times, were difficult to reconcile with industry standards.

> But, you know, a year from the initial approval, the investment committee would meet, the technical secretariate would say here's the progress. These are the institutions that

> have met their performance criteria, they're ready for the next tranche. These are the institutions that have not met them, but I think, you know, they understand the problem, they've got a good plan to fix it, by giving them funding, it will help them actually fix the problem. So we might do a waiver and even though they're missing some of their performance targets, do one more tranche of funding, and then keep a close eye on them. If they don't improve, it becomes more difficult. There may be some that are just suspended, that, in effect, they've missed their performance targets, the technical advisor think they understand the problem, they don't think they're taking it seriously, funding is not going to solve the problem. And actually what you need to do is just intensify technical assistance or write it off. You know. It's venture capital. You invest in seven institutions, two of them you're going to have to write off (Interview 8).

> Not really [do donors visit MFIs for due diligence and monitoring]. Really, to be honest, actually, when they go for the investment committee, just get to town the day before and leave the day after. For the advisory committee, and the next day we meet, the investment committee, and ok, if you want to stay, if you are planning to stay, then you, then you can perhaps visit some, like we do usually. We can visit some MFIs (Interview 6).

On one hand, the apex was a powerful participant in affecting donor capital flow behavior, as indicated in excerpts above. On the other hand, donors utilized information sources other than the apex to assess MFI performance, as indicated in Interview 7,

> But in the, if [donor] takes up the contracting of one of the applicants, then we start also a direct dialogue with the, with the applicant so that is our direct source of information. And then, beyond that, we also have, well we have other programs in Sierra Leone as well. And my colleagues also work on other programs in Sierra Leone. So it's, the TSP is not the only source of information, but I must say that they are, they have proved to be a very valuable source of information (Interview 7).

One donor suggested data and information be used to guide interactions with MFIs aimed at providing a non-monetary recognition for achievement that assists with building a sense of ownership in MFIs,

> Where quarterly reporting is not only submitted, but should be posted in the next month…. So, quarterly, normally, when you receive that, the technical service providers should go through the set of target and achievement, and normally discuss with the microfinance institution…And if, for all of them we should issue letters saying that thank you, you are on targets, or thank you, you really made progress because you you've done better than what was expected. And then if they are below targets, you need to discuss the way to overcome obstacles. Maybe they are obstacles beyond the microfinance institution's management's control. We don't know (Interview 5).

De facto denial was an empirical category that labeled behavior hesitant to deny an MFI proposal, but instead approved the loan with conditions that appeared unrealistic. The donor below spoke to the challenge of reconciling the pressure to support MFIs with the organizational imperative to achieve impact with investments,

> It's often hard to estimate how long it will take an MFI to fulfill certain conditions. So one is the necessity of the fulfillment and two is the realization or materialization of, of the fulfillment. If it's, if it's sent, if it matches with reality, if it's reachable and if it's de facto, is it true that it took too long in many cases, MFIs to fulfill conditions, and in that case we should have kind of all set more appropriate conditions, more realistic conditions. Or we should simply have cancelled the loan or the grant agreement because if you need too long, in some cases, this could also mean that an MFI was not ready for receiving a considerable amount of money and was maybe not enthusiastic enough and not, not, not sufficiently well performing (Interview 9).

The persistent nascent status of the microfinance sector in Sierra Leone was a constant factor in efforts to develop MFIs. Capacity and paradigms were an integral part of developing the sector. Perhaps these were as important as industry practices and institutional financial performance. One official MITAF document records this observation in early 2010. "Given the nascent stage of the sector in Sierra Leone, capacity building of these institutions can take longer than anticipated" (MITAF Narrative Report-1st Quarter 2010). The MFI below expressed this view of the development machine,

> I say look, I came to this industry really with no, no knowledge of microfinance, a conviction brought me to this industry. A conviction that there is something our people are too dependent on handouts. I want to get, I've done handouts. So as Sierra Leoneans working directly with these different directors, I saw look, this has no meaning. They are just playing the game based on the new director. A new director comes in, he has his own position. If he comes for schools, gardens, that you, you do gardens. If he comes for latrines, we build latrines. Nothing really happens. Oh a new director comes, he likes latrines, everybody moves. Ahh, the new director, he likes education and he likes school gardens, we start to plant trees behind schools. [laughter] I got mad at these. I say look, it's high time we start to question some of these people (Interview 1).

H. George Frederickson (2005) references Fred Riggs in echoing the sentiments of this MFI representative in describing the interaction of local cultures and development efforts,

> Riggs brilliantly describes premodern, post-colonial developing countries and compares them to modern counties. In doing so he, like Weber, keeps a particularly keen eye on bureaucracies….I rejected the escalator model of the new modernization literature … in which 'traditional' societies were expected to respond to the fresh breezes of 'modernity' by embracing changes that would, sooner or later, bring them into the new world of opportunity…. It struck me that most societies would adhere

> tenaciously to many of their most valued ancient traditions and cultural norms while simultaneously importing and accepting a facade of practices and patterns that would, hopefully, enable them to maintain their distinctive cultures while benefiting from the autonomy and material goods offered by the outside world (28-30).

Actors more dependent on others, often the MFIs and apex, may choose not to be trustworthy in order to avoid being abused (exploited) by the more powerful party, typically donors (Cook et al., 2005). Research on nonprofit organizations shows that organizations affect "an illusion of compliance" with government contract provisions when the organizations deem provisions unreasonable (Froelich, 1999, p. 257). When MITAF, or the disbursement conditions, were deemed abusive by MFIs then a veneer of action-patterns and discourse were embraced by MFIs to maintain a measure of power and access to resources. Such behavior creates an *information* asymmetry between participants in the deal. Power asymmetry in relationships, characterized as resource dependent, may result in distrust when powerful actors do not make "credible commitments" (Cook et al., 2005, p. 54). Local cultures and development efforts reflected MFI resource dependency as they shaped the donor perception and alignment assessment (Jurik & Cowgill, 2005).

The donor below described the importance of developing local interest by referencing an expected end to international support. The reference is to the role of the Bank of Sierra Leone in MITAF deliberations regarding investment deals and resource allocation.

> They are like the eye of the government to look at what is happening, I mean, how is going to benefit our people and all of that, you know. So I think that their role has been very relevant because in the, umm, advisory committee meetings, these proposals are normally presented, and it is the Bank of Sierra Leone who chairs, I mean the advisory committee meetings. Because, at times, you know,…the conditions we have, you know, of these MFIs meeting, the criterias they have to meet before they can access funding…for some of the local MFIs, you know they might need some capacity building in some area and so I see it is very relevant because the Bank of Sierra Leone then comes up with these issues that look, I mean this is an international MFI. They have the capacity to meet these criterias, but we still have our national MFIs who will need to build their capacity. Because I mean the internationals might decide to leave one day, you know (Interview 11).

The difference was not in the desirability of disbursement conditions based on industry standards, but of the capacity of domestic MFIs to achieve them. The importance of adequate capacity for MFI to performance is not the difference, but perhaps perceptions of the needed and appropriate time and effort to build sufficient capacity in a post-conflict fragile state LDC.

6.4 SUMMARY

Linkages were examined between action and capital flow. With deals as the unit of analysis, actions of participants were linked with tranche disbursements to observe linkages between organizational behavior and capital volatility. Examination of PBA consummation discovered participant behaviors linked to capital volatility. For example, not only did agreements quickly completed constrain volatility, but delays in completing agreements were employed as a tactic to increase capital investment effectiveness and minimize the time between formal consummation and capital disbursement. Examination of the mid-term evaluation also discovered behavior linked to capital volatility. Deals complex in structure administered with tight capital-use controls, can be consummated and implemented to invest capital in MFIs challenged by performance and capacity limitations in a manner to constrain volatility. In addition, it was observed that leadership and culture mattered to disbursement timing. Change in apex leadership was perceived to be related to administration of deals, which was corroborated by both volatility of the deals and belief concerning cultural roles.

How can the above contexts, intervening condition, complexity, and interconnectedness be viewed to make sense of it all? Deeply embedded in voice and archival data is a lens through which diversity and variableness can be viewed with understanding and clarity. This investigation proposes that the Capitalflow Bureaucratic Triad (CBT) is the lens that makes sense of behavior-volatility linkages in collaborative mechanisms,

- when viewing efforts to produce a public good in post-conflict fragile state Sierra Leone,
- where efforts are embedded in the context of an informal economy that is best understood as possessing survival and criminality properties, and
- when rules define efforts by explicating what is required, prohibited, and permitted, as well as how to enter and exit the effort.

Chapter Seven describes CBT theory and applies the model to MITAF data.

7.0 POLICY IMPLICATIONS: CAPITALFLOW BUREAUCRATIC TRIAD THEORY

How do data help make sense of linkages between organizational action/interaction and volatility? What approaches do different actors suggest to reduce volatility? How do different participants explain differences in capital disbursements? Embedded in numerous transactions, descriptive statistics on institutional performance, and official processes of training and technological improvements was extensive evidence of the ongoing struggle of collaboration, organizational imperatives, and the dual goal of serving the poor and performing in a financially sustainable manner. This struggle represents the linkage between organizational behavior and capital flow volatility. *Value of capital is affected by linkages between organizational behavior and capital volatility. Capital flow volatility is determined by the interactions of three properties of bureaucracy: collaboration; accountability; and effectiveness, efficiency, and responsiveness (impact). Capital value is a function of the level of volatility and MFI condition at disbursement: Capitalflow Bureaucratic Triad (CBT).* In a word it is *bureaucracy*, but this is not our father's bureaucracy. New lens are needed to better understand relationships between organizational behavior and capital volatility, especially when collaborative mechanisms are used. CBT aims to contribute to a better understanding of these relationships.

This chapter discusses implications of findings and results by connecting CBT theory with literature and the investigation's data. This is accomplished by moving from the abstract to specific, and from literature to data. First, an overview of the theory as an explanatory lens is provided. The interaction of CBT properties, and properties interacting with capital, is emphasized as activity that affects both capital flow and properties. Drawing on the natural sciences, atomic theory is used to illustrate phenomena comparable to MITAF interactions in the physical world. CBT properties have proclivities toward constraining or enabling disbursements that function like ions in the physical world. Second, the CBT overview is followed by a brief description of each property's attributes. Seven central, though not exhaustive, CBT hypotheses are also presented. These hypotheses, or grounded theory statement of relationships, are useful in predicting behavior-volatility connections in capital investment deals. Third, bureaucracy in CBT is connected to classical comparative theorists and others who place collaborative behavior and structures in bureaucratic theory. The collaborative property is set forth as the special CBT bureaucratic attribute, largely shaped by IAD environmental variables. Classical comparative scholars and others are referenced to demonstrate collaboration has always been a tenet of bureaucratic literature, but in CBT it moves to a more prominent position.

Fourth, the chapter moves from connecting literature and CBT to connecting CBT to data in the investigation. The MITAF case is presented as an analytic specimen. Framed by IAD, the presentation discusses MITAF's shaping by environmental variables: MFI regulation, informal economy, and rules. Also, MITAF participants are set. The presentation serves as the back-drop for an ensuing discussion utilizing CBT to view data linkages between behavior and capital volatility. The theory's three defining properties are detailed in terms of their attributes and dimensions, drawing on evidence from the analysis. CBT is a policymaking tool for examining capital investment deals to understand linkages between capital volatility and organizational behavior. The more linkages are understood, the better volatility constraining measures can be developed.

7.1 A NEW LENS: CASHFLOW BUREAUCRATIC TRIAD THEORY OVERVIEW

A substantive theory explaining the linkages of organizational behavior and capital flow in MITAF was developed in this investigation using data, not applying theories in the literature to the data. Although existing theories explain the phenomena in part, no one theory or framework of theories was located that explicated the diverse variance found in the MITAF case. External factors, individual organizational imperatives, collaborative commitments, and the structure of MITAF as a project are all components often seen in providing public services; however, this combination in one project has been rather infrequent. In 2003 MITAF was formed as the first sector development approach project of UNCDF with UNDP and KfW. It was an ambitious, adventuresome undertaking given environmental factors, a nascent microfinance sector, and administration required by this collaborative structure (2011). The complexity and interconnectedness observed in MITAF deals held the key to making sense of linkages between behavior and capital volatility.

The explanatory power of *coalescing and colliding* (i.e., interacting) in CBT theory, presented above, provides clarity to complexity and interconnectedness in a manner similar to how atomic theory taught in U. S. high schools clarified relationships of interacting matter (Scott & Davis, 2003; H. Simon, 1996; 1960; Strauss & Corbin, 1998). Remember that in Einstein's theory of Special Relativity (i.e., $E=mc^2$), he predicted the amount of energy physical matter would be equated to if it could be converted to energy. All physical matter is comprised of various combinations of elements. Each element consists of many identical atoms. An atoms' structure is unique to each element. For example, gas is different from diamonds. The structure includes specific combinations of three elementary particles: electronically neutral *neutrons* and positively charged *protons*, which make up a nucleus, surrounded by the negatively charged *electrons*. Modern atomic theory utilizes quantum mechanics to explain how these atoms act/interact. Quantum mechanics is a particularly appropriate simile because, like the combination of coalescing and colliding found in the MITAF case, it provides explanations that seem to be irrational. These are not considered flaws of the theory, but how matter behaves when examined at a subatomic level; typical concepts involving energy and motion do not apply the same. For example, traditional concepts cannot explain superconductivity.[57]

In more basic terms, juxtapose the linkages in this investigation with the linkages between a river and conglomerate rock utilizing atomic theory. Atoms represent the three properties of CBT; each property is a different atom. Consequently, CBT is more like a mixture (e.g., conglomerate rock) than a compound (e.g., crayon) as the CBT properties can operate distinctively. Like the atom's elementary particles—positive, negative, and neutral—there are tendencies in CBT properties relative to capital flow. Positive or negative proclivities toward capital disbursement were found in the accountability and EEI properties.[58] In other words, properties have tendencies to constrain or enable disbursements.

Numerous considerations—such as stakeholders' evaluation, particulars of the deal, circumstances related to a tranche's disbursement, and individual organization characteristics—factor into constraining tendencies embedded in a CBT property that attach to a particular disbursement. This is similar to positively charged atoms transferring from conglomerate rock

---

[57] Superconductivity is the state of no electrical resistance in certain material below a certain temperature, without gradual reduction in resistance before that temperature.
[58] Like neutrons, the collaborative property is neutral in MITAF and defines the collaboration/cooperation feature (Standard Treasury of Learning, 1960; UNCDF, 2004b).

into a river. Not only does the conglomerate rock change the flow of the river, but the river changes the conglomerate rock (i.e., positively charged atoms, ions, transfer from the rock into the water). The linkage between the rock and the river illustrates the linkage between behavior and capital flow in this investigation. Linkages that reflect constraining tendencies are visible in deals with MFIs possessing different strengths. For example, financial performance as an EEI attribute tends to enable deal disbursements involving a financially strong MFI, while accountability to government stakeholders tends to enable deal disbursements involving a community focused, financially weak MFI.

Complexity is added to deal disbursement tendencies in CBT properties when quantum mechanics theory is introduced. For instance, the irrationality of quantum mechanics may be found in CBT explanations about donors relaxing disbursement conditions. Donors accept lower MFI OSS and FSS as a condition for disbursement and this can result in MFI improving OSS and FSS performance[59] because the MFI employs disbursed capital to hire additional staff and improve outreach. Staff and outreach improve performance by increasing interest income from more loans, and control PaR through increased staff attention to constraining defaults. Relaxing OSS and FSS disbursement conditions may be perceived as an irrational act in efforts to improve microfinance institution OSS and FSS performance. Understanding how behavior and capital volatility affect each other is aided by the three properties, defining components of CBT bureaucracy, even when actions seem unrelated.

7.2 CBT THEORY: THREE AUTONOMOUS CONNECTED PROPERTIES

From IC approval of an MFI investment package numerous, diverse, and complex organizational actions/interactions occurred that were linked to capital flow. Beginning with written notice of approval provided to the MFI by the apex, through and until the last tranche of capital was disbursed, there were complex interactions between organizational behavior and capital flow. Some behaviors assisted timely capital flow, some delayed capital flow. Others

[59]Remember that Operational Self-Sustainability (OSS) and Financial Self-Sustainable (FSS) are organizational performance measurements computed by dividing the total revenue by total cost, and total revenue divided by total adjusted cost (inflation + subsidized cost of funding + in-kind subsidies) respectively. PaR (portfolio-at-risk) is a loan portfolio payment default measure. It normally involves balances with payments over 30 days late.

caused premature capital flow. The variance in time is volatility. *The linkages between organizational behavior and capital volatility are explained by bureaucracy expressed as three interconnecting properties: collaboration; accountability; and effectiveness, efficiency, and responsiveness/impact.* CBT theory defines bureaucracy as: *structures and processes employing collaboration to accountably serve the public effectively, efficiently, and responsively.*

Grasping this autonomous connected aspect (Coleman & Tangermann, 1999) is essential to understanding bureaucracy in CBT, and how properties function in CBT. Properties, like atomic elements, are not exclusive to a mechanism. Accountability is found in market mechanisms and organizational mechanisms. Furthermore, properties are not to be viewed as a dichotomous variable. Rather, CBT properties are similar to ratio variables with a range of dimensions. Observing different properties of bureaucracy at different dimensions does not make the observed something different than bureaucracy, just a different expression. CBT assists this observation by better enabling close examination. When examining matter at the quantum level—the smallest, undividable unit—observations not visible at lower levels of magnification are seen. Similarly, CBT theory examines behavior-volatility linkages at the most basic levels, which is argued to be the three CBT properties, and finds explanations overlooked or undetected at higher levels.

7.2.1 CBT property attributes

The three properties of CBT are briefly described below. The attributes provided reflect variances on a spectrum.

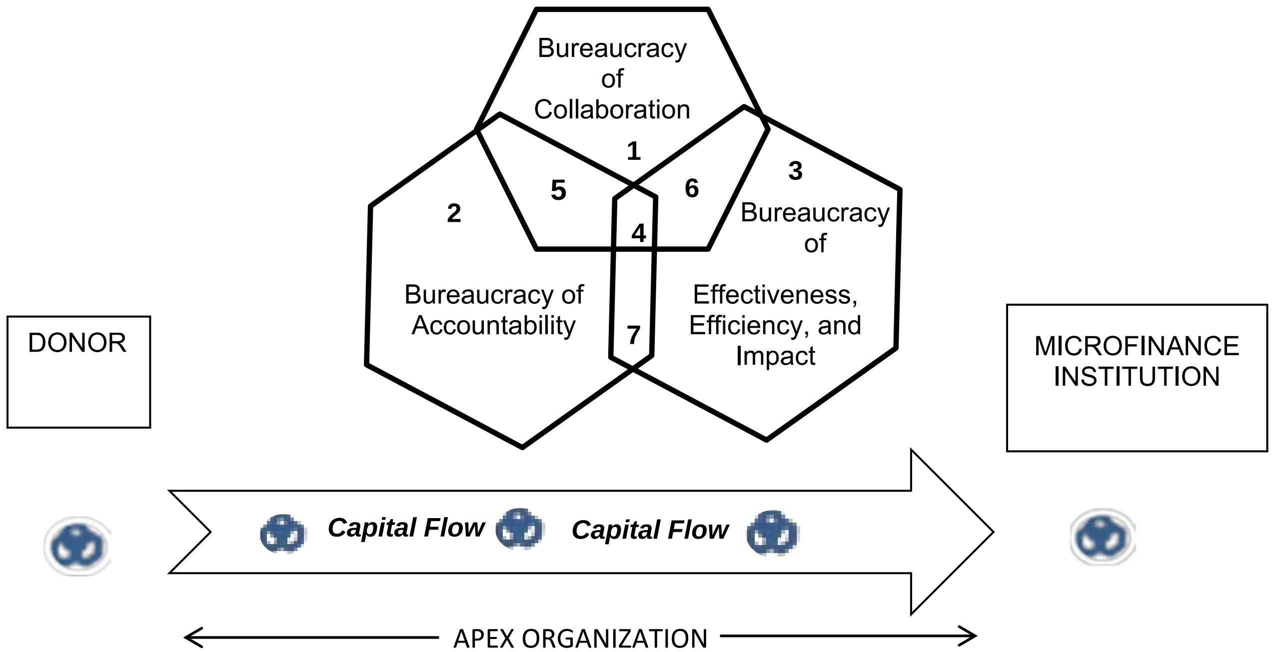
- **Bureaucracy of Collaboration.** This property provides for, and challenges, group commitment and individual organizational restraint. It involves coordinating resources in the context of tensions between individual organizational imperatives and collaborative commitment. It also requires flexibility to accommodate wide variation in goals. Effective coordination of complexity is important. The art of compromise through balance of power is important. Getting a given task done by utilizing any combination of several processes without one single authority is a challenge. For a transaction-intense industry such as financial services, where clear lines of authority and consistency in process are norms, this flexibility, complexity, and balancing power is problematic. MFIs work together to develop sector capacity and control losses. The TSP works with donors, MFIs, Bank of Sierra Leone, and other resource providers, including consultants, to support IC investment activity and develop the sector on three levels: micro, meso, and macro. Donors make investment disbursement decisions by working together to comply with collaborative commitments, while remaining true to their respective organizational missions.

- **Bureaucracy of Accountability.** The attributes of serving with, and resisting, managerial oversight, governance, transparency, and various stakeholders constitute the accountability property. It often involves both top-down pressure and bottom-up pressure from various stakeholders. For example, disbursements to MFIs are tied to satisfying conditions, which involve pressure from MITAF to improve financial performance while communities are pressured MFIs for deeper, broader access to financial resources. As goals vary so too do the results. In the process, accountability becomes less clear.

- **Bureaucracy of Effectiveness, Efficiency, and Impact.** Those features designed to produce quality outcomes at the least cost are challenged by forces pursuing greater equality and broader, deeper access to financial services. Pursuing effectiveness, efficiency, and responsiveness/impact by utilizing any one of several processes without one single authority is a challenge. In this collaborative setting of shifting prevailing coalitions, whoever sets the goals determines the measurement of performance (e.g., effectiveness, efficiency, impact).

Bureaucracy, as defined by these three properties, interacts with capital flow, shaping and being shaped like three-element conglomerate rock in a river. MITAF participants acted bureaucratically to create, and respond to, capital flow; this determined the amount of delay and condition of the MFI at disbursement. The value of capital is a function of the level of volatility and MFI condition at the time capital is disbursed. Capital volatility is determined by the interaction of three bureaucracy defining properties.

There are not three different bureaucracies, but three properties of CBT bureaucracy. The concept is similar to triadic chords in music theory where three distinct notes combine as the substance of functional harmony. The properties are not only separate and distinct, but overlap in practice. Property relationships are illustrated in Figure 9, which presents the CBT model. Relationship overlap is portrayed where the hexagons occupy common space. The property hexagons are designed to be applied in three dimensions: *x and y axes* portray pro/anti collaborative dimensions (*y*-axis), and alignment with individual imperatives (*x-axis*); individual relative layer indicates weight (upper level more weight, lower level less weight), and overlap reflects alignment of properties relative to collaboration and individual organizational imperatives. The properties operate like collinear variables; their combined contribution is not merely derived by addition. This overlap reflects the complexity and duality of a number of behaviors and characteristics of capital flow. Moreover, the Bureaucracy of Collaboration is the property where only the MITAF project is represented. This property's absence from the interconnection of the other two reflects bureaucratic dimensions within, rather than between, participant organizations. In essence, it is behavior outside of MITAF with unique costs and benefits. CBT theory acknowledges behavior outside the collaborative; however, such behavior's capital value effects are not postulated.



Bureaucracy Properties and Interactions

1. Bureaucracy of Collaboration within a participant organization and within MITAF.
2. Bureaucracy of Accountability within a participant organization.
3. Bureaucracy of Effectiveness, Efficiency, and Impact within a participant organization.
4. Interaction of 1, 2, and 3 where resources are being organized and employed in a collaborative structure to perform effectively, efficiently, and achieve social goals while being accountable to stakeholders of the individual organization, participants in MITAF, and MITAF stakeholders. Accountability within MITAF Collaboration is 5 (without 3), and Effectiveness, Efficiency, and Impact within MITAF Collaboration is 6 (without 2).
7. Interaction of 2 and 3 is where an organization's own process of employing resources for effectiveness, efficiency, and responsiveness to the target population—all of which may be defined differently than MITAF—are engaged while being accountable to its stakeholders.

Figure 9: Linkages Theory—Capitalflow Bureaucratic Triad.

Bureaucracy, as defined by these three properties and as illustrated in Figure 9, interacts with capital flow, shaping and being shaped like three-element conglomerate rock in a river. River and rock properties, as explained earlier, grow and strike together to change not only the flow of the river, but the chemical composition of both the river and the rock. Similarly, MITAF participants acted bureaucratically to create, and in response to, capital flow; thereby determining the amount of delay and MFI condition at disbursement.

7.2.2 CBT statement of relationships: Hypotheses

This investigation's approach to grounded theory used the triad of analytical operations to identify preliminary hypotheses that evolved in developing an integrated theory connecting actions to capital flow. For instance, theoretical memos were used to record observed concept linkages early in the deductive process. Strauss and Corbin (1998) explain that the "relationships that connect major concepts" are typically "woven into the text" of the report (p. 213). They opine that "linkages are unlikely to be presented as a listing of hypotheses or propositions" (p. 270). That said, a brief summary is provided in this section to consolidate major relationships (i.e., hypotheses) observed by utilizing numbering that corresponds to that in Figure 9. This summary can be used with CBT theory's complete presentation herein to serve policymaking in different contexts. These hypotheses are central to CBT bureaucratic theory, and relate to an evolving tradition that explains bureaucratic behavior in public organizations, which is useful in understanding linkages between behaviors and capital flow volatility.

In CBT theory capital flow and its volatility were operationalized as variability in disbursement timing of each tranche from the time a deal was approved by the IC and as measured against the structure of the deal and MITAF espoused disbursement rules. Capital volatility is a byproduct of behavior involving all participant organizations: donors, apex, and MFIs. Behavioral factors included developing and satisfying disbursement conditions (including MFI condition at disbursement); donor bureaucratic activity; participants' routine response to daily business events; and strategic, premeditated actions in response to perceived problems linked with volatility. CBT is a lens to view these factors and their linkages to capital disbursement with its associated volatility. As such, it is a descriptive theory to inform making sense of relationships between behavior and volatility in order to better attack the problem. Moreover, the model can also be used to predict volatility in certain contexts. Major relationships forming CBT are provided below:

1) Collaborative participants agreeing on a tranche disbursement's disposition will account for observed capital volatility. This is without regard to external stakeholders' interests or their EEI definition and measurement, especially when different from the collaborative.

However, linkages between capital volatility and organizational behavior vary in dimensions deal-by-deal/package-by-package.

2) Capital volatility of a deal is affected by participant organizations' internal accountability tactics and strategies, including competitive considerations; regardless to whether it is prior or pursuant to a request for disbursement by the collaborative.

3) Stewardship of mission and resources in a financial sustainability manner is required for sustained financial sector effectiveness, efficiency, and responsiveness to the target population (impact).

4) Where bureaucratic behavior and capital disbursement involves all three properties, linkages with volatility are clear and agreed upon. Participants—MFIs, apex, and donors—have found balance between their respective organizational interests and the collaborative. Power is balanced by participants making credible commitments.

5) An organization's collaborative commitment reflects the interest(s) of its most powerful stakeholder(s) at the time of capital disbursement; perhaps deal-by-deal/package-by-package.

6) An organization's collaborative commitment is affected in capital disbursement considerations by the degree they have power to influence the collaborative definitions and measures of effectiveness, efficiency, and impact to align with their own.

7) Capital volatility of a deal is affected by participant organizations' internal definitions and measures of EEI combined with reflecting the interest(s) of its most powerful stakeholder(s). This is without regard to alignment with collaborative definitions and measures.

These statements of relationships, though not comprehensive, represent central hypotheses of CBT and were observed during the investigation. For example, Hypothesis 1 suggests that when the apex, donors, and an international MFI agree, as participants in a deal, there will be clarity on the action to be taken. Consequently, behavior-volatility linkages will evident. This clarity is not affected by the beliefs of other MFIs or the central bank.

According to Hypothesis 2, MFIs with key stakeholders valuing social outcomes over financial performance may show leniency to people in default. Moreover, MFIs with a mission of providing credit to marginalized people may accept more credit risk than deemed consistent with sustainable operations. The target population holds MFIs accountable by selecting to do business with MFIs that most align with their needs. As such, competition is considered an accountability mechanism for MFI customer stakeholders.

Competition as an accountability mechanism may be foreign to some public organization researchers; however, it is found in public organization and business literature. Literature discusses public organizations where "accountability to the market" is expressly used to explain how citizens choose between government alternatives, describing the alternatives as competing to be selected by citizens (Adler, 2003, 2006). Government interjurisdictional competition is described as an external "mechanism for accountability" (e.g., IAD external environment) where citizens can exercise Hirschman's choice of *exit* (Bardhan & Mookherjee, 2006).

The accountability relationship between government and business is addressed in the literature. One researcher examined the regulator-business relationship, arguing that accountability is turned upside down as governments compete for foreign direct investment (FDI) from transnational corporations (TNC). Competition for TNC's FDI makes the government accountable to TNCs through the market for their FDI (Koenig-Archibugi, 2004).

Markets are a context external to MFI organizations functioning as capital delivery mechanisms for poor people (i.e., financial services sector). Competition is viewed by many in economics as a market structure with properties (Perloff, 2007). From this perspective competition is a mechanism. It also answers the three key accountability questions: accountable for what, to whom, and how. Competition has been useful to customer stakeholders for holding businesses accountable for responsive practices by choosing to exit and select another provider.

MITAF explicitly included in its formation document (Programme Support Document) the goal of donors working together by investing in deals to support the government coordinating "activities in the micro-finance sector in order to avoid duplication and over-subscription" (UNCDF, 2004b, p. 6). Competition was viewed as a device to aid this avoidance by MITAF controlling investment capital, which is evidenced in MITAF Narrative Reports. It aligns with the work of Coase and Simon explaining that organizations are preferred over markets for much economic activity (Coase, 1937; H. Simon, 1996). MITAF was a powerful actor in shaping the structure of MFI competition, including competition for donor investment capital.

Hypothesis 3 contains a controversial concept as an explanation of behavior-volatility linkages when viewing powerful actors in MITAF. Stewardship is the antithesis of the node *self-interest* that emerged in data fragmentation and re-aggregation. Some scholars view stewardship as a normative construct and, therefore, problematic as an explicator and predictor. However, the relationship between stewardship and high performance organizations is found in organizational theory literature. In a world of limited resources, effective, efficient, and responsive financial service provision to the poor necessitates that MFIs perform at high levels to operate sustainably. MITAF data underscore that stewardship is related to sustainability and volatility levels. The volatility proclivity of the EEI property, however, can vary by deal. For example, donors/programs that value effective service delivery and responsiveness to targeted populations over efficiency will possess proclivities toward disbursing to MFIs similarly inclined, notwithstanding weak OSS and FSS performance. On the other hand, proclivities will be the opposite where organizations value OSS and FSS performance over social outcomes.

Stewardship theory is central to the EEI property that is foundational to Hypothesis 3 because it focuses on participant alignment of beliefs regarding mission and performance. As the literature explains, stewardship theory is based on behavior motivated by goal alignment, rather than self-interest (Davis, Schoorman, & Donaldson, 1997). Stewardship theory literature relates identification with organizational mission. Sustainability in stewardship theory assumes collaboration with organizations embracing similar visions. Credible commitments and trust are integral to stewardship theory. Moreover, stewardship theory literature explains behavior seeks achievement at the highest level of collective commitment, thus satisfying most of the group.

Stewardship theory has not been studied extensively beyond the seminal work of Davis and his colleagues (Davis et al., 1997; Van Slyke, 2005). This accounts in part for its limited use in explaining organizational behavior and related controversy. One frequently cited empirical study in the literature looked at questions related to New York government agency contracting with nonprofit organizations for service delivery and the applicability of agency theory and stewardship theory (Van Slyke, 2005). The theories were found to be complementing, not opposing. In addition, it was suggested that length of relationship was particularly important to government agencies embracing stewardship views while nonprofit executives normally approached the relationship from a stewardship posture.

Stewardship concepts were operationalized in the Global Leadership and Organizational Behavior Effectiveness Research program (GLOBE), which added to the body of leadership knowledge by focusing on cross-cultural interactions (see Appendix J). GLOBE utilized a theory driven approach to develop question items to assess leadership values and practices across nations (Hanges & Dickson, 2004). Factor analysis was used to develop six factors that describe universal patterns of leadership traits and behaviors. The six factors were based on 21 factors, or subscales, describing specific leadership traits and behaviors. Table 9 provides some of the terms respondents rated regarding their importance to outstanding leadership (GLOBE, 2006). Concepts expressed in these terms are integral to stewardship theory and thought.

Table 9: Stewardship concepts contained in GLOBE survey.

Self-Sacrificial	Foregoes self-interests and makes personal sacrifices in the interest of a goal or vision.
Collaborative	Works jointly with others.
Group-Oriented	Concerned with the welfare of the group.
Loyalty	Encourages group loyalty even if individual goals suffer.
Consultative	Consults with others before making plans or taking action.
Effective Bargainer	Is able to negotiate effectively, able to make transactions with others on favorable terms.

Hypothesis 4 represents the ideal from MITAF's perspective. All three properties have equal weight, are in alignment relative to the collaboration's perspective, and have balance between individual organizational imperatives and collaborative goals. However, this does not necessarily mean constrained volatility. For example, all participants may be in agreement on targets to disburse capital only to experience MFIs taking longer to achieve the target. When a tranche is expected to be released within 14 days of deal consummation, or within one year of consummation, conditions agreed to by all participants may have changed. Environmental conditions at consummation may have been radically different from the environment at the time a determination was to made regarding tranche release. At this later point the alignment may no longer exist. For example, environmental changes may have contributed to lower than expected MFI outreach growth and OSS. The MFI may believe this necessitates a wavier and leniency to provide support during a difficult period, while the investor may contend accountability to stakeholders necessitates a more careful use of investment capital. The state of properties with equal weight, alignment, and balance constrains volatility when *beliefs* and *actual performance* are aligned.

The assertion of Hypothesis 5 concerns effects of powerful stakeholders including instances when they are indifferent. Deals with powerful stakeholders perceived as indifferent often spawn a collaborative commitment by the organization that can have low costs and high value. This value includes securing other benefits (e.g., progress on donor/apex disbursement quotas) and support of other stakeholders. Organizational self-interest was at times a central driver with MITAF participants. Moreover, external evaluation of the collaborative project can affect the amount of capital and number of deals approved, as well as the volatility of capital flow pursuant to those deals. Cooperation was enhanced during the mid-term evaluation. External evaluation may be viewed as a single stakeholder, though many stakeholders use the work product. It is important to note MITAF seemed to respond to the approaching evaluation with behavior not directly addressing a specific performance measurement; MITAF entered deals and disbursed capital. Underlying performance measures is the understanding “it’s about the money.”

Hypothesis 6 asserts that an organization’s collaborative commitment is affected by its ability to influence the group and may come as no surprise. However, it is noteworthy that greater variances between MITAF and a donor results in a higher likelihood of de facto denial deals. Disbursement conditions that are likely to take a long time for an MFI to satisfy are the chief characteristics of de facto denial type deals. Rather than be on the record as vetoing an MFI capital investment proposal, an MFI that significantly deviates from the IC member’s EEI definition may be subject to certain MITAF disbursement policies that, in effect, relegates the deal to denial status. That is, the MFI condition is so far from disbursement conditions that MITAF disbursement expectations will not be satisfied (e.g., first tranche within 14 days, annual disbursements). As such, it will officially appear as if the disbursement was delayed to the MFI because it failed to satisfy disbursement conditions. For resource dependent MFIs it is important to have a non-collaborative capital source (e.g., donor), such as an international organization partner/sponsor to which they are accountable.

CBT theory is expressed in relations that link key concepts found in the investigation data. There are numerous relationships accounted for in CBT, including the seven key hypotheses presented above. These seven hypotheses are not comprehensive or sufficient in themselves to apply CBT. However, they are helpful in understanding the nature of CBT concepts used to explain behavior-volatility linkages and develop approaches to constrain volatility. Guidance in applying CBT to empirical and theoretical data is provided later in the chapter. Foundational to grasping CBT and applying the model is the central organizing concept discovered in MITAF data: bureaucracy.

7.2.3 Bureaucracy in CBT: Structure, collaboration, and authority

CBT theory is comprised of principles expressed in statements of concept relationships (i.e., hypotheses) to make sense of bureaucratic actions and outcomes. Numerous definitions of bureaucracy have developed over the years. Many came to define it by its misuse and associated destructive behaviors. The word has been used to label abuse of rules and innovation torpor and lethargy. Bureaucracy has come to be identified with inertia, ineffectiveness, inefficiency, and dehumanization. Many years ago this was not the case. Nor was it necessarily reflected in this MITAF case study. CBT theory defines bureaucracy as *structures and processes employing collaboration to accountably serve the public effectively, efficiently, and responsively.*

7.2.3.1 Classical bureaucracy and CBT bureaucracy

Bureaucracy in public organizations was a response to special interests' power and favoritism, especially in late 19th century United States (Kettl, 2007). Bureaucracy was understood as an administrative approach that emphasized clear lines of hierarchal authority and was impersonally exercised. Rule-governed actions executed by competent experts were used to ensure consistency in performance and equitable treatment. Bureaucracy involved defining the task, breaking it into each of its parts, and matching skills to what needed to be accomplished. This included staffing based on competency, and decision making based on the most efficient, most effective options. Skilled management and staff were delegated responsibility and given parameters to employ their talent. Responsibility and accountability were hierarchical with a clear line of authority. A "single source of final authority" was deemed to be "elementary to good organization," and residence of authority was required to "be in the clearest terms" (White, 1939, pp. 45, 46). Bureaucratic hierarchical structures were deemed to be universally applicable to all organizational settings. In fact, bureaucracy in its basic form is still the organizational skeleton preferred by organizations, public and private, all over the world (Barzelay, 1992; Hummel, 2008; Picard & Buss, 2009; H. Simon, 1996). This section places CBT bureaucracy in the comparative bureaucratic literature and establishes collaboration as the distinguishing bureaucratic attribute in the CBT theory. Next, bureaucratic characteristics are briefly discussed in the context of different scholars and U.S. history.

The traditional view of bureaucracy only partially fits the MITAF experience. As a result, a more contemporary, complex theory of bureaucracy is used to view the activity in MITAF and understand capital volatility. CBT theory is consistent with the open system perspective of environments shaping organizations (e.g., loosely-coupled systems); however, this investigation connects actions with not only process but structures (Scott & Davis, 2003). Also, Bernard's "executive responsibility"[60] and cooperative systems concept is incorporated (Barnard, 1938). It should be noted that MITAF's distinctive project collaborative structure does not possess

---

[60] Bernard considers a distinguishing characteristic of executive duties the creation of moral commitments to the collaboratively developed goals, which includes constraining individual imperatives (Barnard, 1938).

traditional hierarchal characteristics used to delegate authority in creating a "working system" (Barnard, 1938, pp. 231, 232). CBT bureaucracy is viewed as possessing three defining properties: collaboration; accountability; and effective, efficient operations that result in positive outcomes for the poor (impact).

7.2.3.2 CBT behavior in bureaucratic tradition

CBT explains capital flow volatility and is a theory of bureaucratic behavior. Linkages of capital volatility with behavior are central to the investigation because these linkages are underdeveloped in volatility literature. Bureaucracy was used by diverse MITAF participants to describe behaviors and processes explaining disbursement volatility. At the same time, MITAF clearly had strong collaborative attributes. Bureaucracy in MITAF built upon the evolving work of an international perspective of bureaucratic tradition. MITAF's contemporary, complex theory of bureaucracy is drawn from an evolving tradition explaining bureaucratic behavior in public organizations. CBT's distinction from popular views of bureaucracy is primarily observed in the collaborative property, which is examined by comparative bureaucratic theorists and others.

Comparative bureaucratic literature classifies bureaucracy utilizing committees that operate with equal participants as *collegial bureaucratic elite systems* (Armstrong, 1973; Crozier, 1964; Heady, 2001). John Armstrong (1973) explains how colonial administrators utilized a collegial bureaucratic mechanism influenced by cultural factors, such as team work encouraged by Oxford College. Armstrong portrays administrative officials collaborating to avoid bureaucratic constraining behavior. He also draws on restraint by Treasury officials to illustrate allowing other committee members to take leadership, rather than employing financial leverage to control decision making. Armstrong and other classical comparative analysis scholars underscore a varied understanding of functional bureaucracy, which includes collaborative behaviors, while cautioning those unable to imagine bureaucratic principles other than their own. For example, Crozier (1964) refers to research by English social psychologist Stephen Richardson who explored task organization, human interaction patterns, and authority relationships. Crozier contends that a superficial reading of Richardson's article may result in overlooking important differences between French and American bureaucratic behavior. He illustrates this by underscoring Americans cooperating with greater ease, comparatively minimizing the need for centralization.

Cooperation as a central property of bureaucracy in CBT theory is consistent with the work of Herbert Simon and Donald Kettl. Simon (1997), and later Kettl (2007), contend that all organizations practically employ some level or type of bureaucracy. Kettl connects bureaucracy, coordination, and hierarchy for contemporary public organizations. He notes that "Administration is about coordination….Hierarchy and authority cannot and will not be replaced….Hierarchy and authority provide enduring strategies for both coordination and accountability" (p. 168). He further explains that hierarchy defines responsibilities, and authority provides for accountability. Hierarchy and authority are applied to achieve efficiency and responsiveness in skilled bureaucratic behavior. However, Kettl explains hierarchy and authority are not fragmented in high performing bureaucracies. Collaboration is an integral connector.

Simon studied bureaucratic behavior by exploring influences, which includes authority incorporating collaboration as a key function. Authority is one of two modes of influence Simon examines. In addition to providing organizations formal structure, Simon explains authority serves to achieve coordination. He suggests that authority used to make decisions when agreement cannot be reached is overemphasized. For Simon, collaborative behavior is distinguished by agreement, not efficiency, effectiveness, or responsiveness. Behavior pursuant to believing the authority serves higher performance, and the performance is valued. It does not portray authority as disparaging. Furthermore, Simon argues that, with support from psychological evidence, creative and fulfilling behavior is most likely in a setting with the appropriate level of structure. Collaboration is a property of bureaucracy and a key authority function, where authority and structure (e.g., hierarchy) are operationally understood to include informal relations.

Simon and others contends that the formal does not experience high performance without the informal (Barnard, 1938; Blau, 1963; H. A. Simon, 1997). These aspects are not two organizations, but communication and interpersonal relations within the same organization. He sees the formal encouraging development of the informal to serve high organizational performance, such as fostering an environment of cooperation. Communications and interpersonal relations not accounted for by formal hierarchy and authority (but occurring within the organization) are not lost in the operational understanding of bureaucratic structure and behavior.

Behavior outside formal relations has been ignored by narrower views of bureaucracy; however, it has long been considered by many administrative theorists (Barnard, 1938; Blau, 1963; H. A. Simon, 1997). According to Peter Blau, Weber's bureaucracy of structure, rules, and efficiency did not reflect his unquestioned understanding that behavior did not always conform to the formal. Blau describes Weber's bureaucracy as devoid of important operational aspects. Weber did not rigorously explore this phenomenon, according to Blau, and therefore did not give attention to the resultant organizational learning. Blau contends nonconformity is not revelatory or particularly interesting. More importantly, he draws on Barnard to argue informal behavior serves organizational learning and intelligence. Both formal and informal communication and interpersonal relations are integral to bureaucratic performance.

When MITAF performance was observed to examine capital volatility, formal and informal bureaucratic behavior were found to represent scales and incorporated into CBT properties. Formal relationships and behavior are expressed in terms of hierarchy and authority in various official documents. Informal relationships and behavior are captured in the data collected by this investigation. Foundational to bureaucratic behavior and structure expressed by interview subjects is the collaborative communication, relations, and design of MITAF.

7.3 MITAF : A CASE OF ORGANIZATIONAL BEHAVIOR LINKED TO CAPITAL FLOW

The MITAF case portrays how organizational actions/interactions pursuant to capital investment deals related to capital volatility. Capital investment deals were part of a multi-faceted strategy to improve access to financial services for the poor and were in a context shaped by certain environmental factors. Capital disbursements pursuant to deals experienced volatility ranging from substantially according to plan and expectations to substantial variance. The case helps make sense of complexity and interconnectedness because, at times, they seemed inconsistent with producing capital flows that improved access to financial services. Case data is viewed through the CBT lens to connect defining properties to the data.

Data supports the claim that government regulation shaped the context where organization action/interaction was linked to capital flow from donors to MFIs. This included government activity that created, empowered, and constrained MFI behavior by institution and the entire sector. Specifically, regulatory activity involved monitoring both MFI risk and management. This activity also included access to information about MFIs used to define and promote socially accepted behavior by MFIs.

Understanding how MFI regulation shaped the context where behavior was linked to capital flow also required making sense of its post-conflict and fragile state properties. In Sierra Leone over a decade of civil war depleted and demolished much of the resident intellectual capital and bureaucratic infrastructure (Momo et al., 2011). “Infrastructure has been destroyed, institutions have disintegrated, people have fled” (English & Stryker, 2006, p. iv). Intellectual capital and infrastructure is integral to monitoring and reporting on (i.e., regulating) a growing, changing, diverse, and expansive MFI sector. As such, the post-conflict property is closely related to the fragile state property. Limited human capital, scarce financial and material resources, and competing national and international priorities can make a fragile-state regulatory force one key resignation, or a couple of extended illnesses away, from substantive curtailment (Duval & Bendu, 2009; Miamidian & Khalaf, 2009). The threat of renewed conflict is another factor that helps shape the context where action/interaction is linked to capital flow.

Of civil wars that reignite, a substantial number do so within 10 years of achieving peace. Armed conflict constrains government regulatory effectiveness. Sierra Leone has the unenviable distinction of hosting the largest UN peacekeeping force in history (Momo et al., 2011). Collapsing back into violence has significant ramifications for not only regulatory effectiveness, but well beyond the 71,740 square kilometers of this tropic nation. The government and donors believed the path to productive engagement, prosperity, and long-term peace and stability was accessible, to a large extent, by making financial resources available to the population-at-large (Momo et al., 2011). For many, their life was in the informal economy and financial services met them there.

Understanding the informal economy and its role in shaping the context where organizational action/interaction was linked to capital flow is also extremely important. The informal economy is all economic activity not subject to government regulation or taxation. Making sense of how the informal economy forms the action/interaction context requires comprehending its survival and criminality properties. People and organizations are motivated to survive. This survival is both literal and ontological. Ever present are opportunities and pressures to engage in illicit activities. Sierra Leone has a substantial informal economy. Both licit and illicit forces work continually to capture and exploit the informal economy.

The linkage between organizational action/interaction and capital flow occurs in a context formed and shaped by rules. Rules were conceived, negotiated and agreed upon by stakeholders possessing various amounts of power. Their respective amount of power was a function of numerous decisions and actions over many decades. It was also a function of then present constraints, urgencies, and resources. Rules shaped the context by determining what was required, forbidden and permitted, as well as entering and exiting the context. Power vested in stakeholders was employed in the use of rules. Ostrom contends that, "rules are the tools…that fallible humans can use to try to change situations to achieve better outcomes" (Ostrom, 2005, p. 132). History's lessons are stored in modified rules as an imperfect heuristic in the hands of fallible people.

The MITAF project was a context shaped by rules, espoused and working (theories-in-use) rules, where organizational actions/interactions were linked to capital flow. One group of MITAF participants were MFIs. Participating MFIs were seen as possessing the best potential to lead and serve as a model for the sector. They were selected by the MITAF Investment Committee (IC), as recommended by the apex through application of rules (criteria) for selection. MFIs were broadly defined and have various structures, histories, and organizational missions.

Another set of participants was the IC itself, which was comprised of four donors that pledged at least the specific minimum capital amount to the project. Similar to MFI, donors represented various structures, histories, and organizational missions. These four donors were among the leading investors in Sub-Saharan Africa microfinance sectors, measured in terms of number of nations and amount of capital.

The final participant is the apex, or technical service provider (TSP). The apex organization was the functional apparatus of MITAF. It was charged with achieving broad outcomes that at times conflicted. The MITAF collaboration involved different types of organizations, based in different nations, from different perspectives, committed to a common mission with separate individual missions that, at times, were in conflict with the collaborative commitment.

7.3.1 Properties and dimensions of bureaucracy

Bureaucracy serves as helpful monocles in making sense of the MITAF collaboration's complexities and interconnectedness. Bureaucracy, however, has special attributes in MITAF. As noted above, this is not our father's bureaucracy. Woodrow Wilson, Frank Goodnow, Max Weber, Leonard White and others from 1887 through mid-twentieth century provided a bureaucracy best understood by the administrative mechanism being replaced. Similarly, bureaucracy in MITAF took on attributes for this project shaped by particular environmental factors (IAD framework exogenous variables). The uniqueness was primarily found in the broad reaching effects of collaboration. Collaborative attributes at times were the basis for, and conflicted with, espoused goals in commercial-based investment decisions where actors had political agendas. Deals pursuant to those investment decisions were observed with a focus on organizational behavior and capital disbursement activity. Fragmentation and re-aggregation of text data was combined with capital disbursement data to determine property combinations and predominance. Moreover, observed linkages were viewed as data points for dimensions within each property. The logical connection between CBT properties is discussed in the following sections. The attributes of the properties are connected to data, thereby providing the underlying case evidence.

7.3.1.1 Bureaucracy of Collaboration

The overarching goal of poverty alleviation required MITAF stakeholders to cooperate. Specifically, members of the Investment Committee, the apex staff, and MFIs needed to commit to the MITAF mission of providing “sustainable access to financial services for poor and low-income people” (UNCDF, 2004b, p. 6). At the same time, each organization’s mission was the primary compass guiding its work (Kearns, 2000; Picard & Buss, 2009). MITAF’s effectiveness was directly related to its ability to coordinate the complexity of various interests while working collaboratively (Barnard, 1938; Gazley, 2010; Kearns, 2000; Kettl, 2007). Central to this coordination was balance of power. The collaborative property of CBT is the theory’s distinguishing aspect that presents an alternative way of viewing bureaucratic authority relationships.

Compromise was important to balance power within MITAF. Within the IC, compromise was important to developing disbursement conditions, notwithstanding policy set forth in various documents. Compromise was important during interactions between IC and the apex, and apex maintenance of a “harmonious relationship” with the government and donors; this qualifier was not explicitly contained in the Programme Support Document, but an implicit measure within

MITAF, the government, donors, and other stakeholders (UNCDF, 2004b). Compromise was important during interactions between MFI and the apex, as well as between MFIs and donors (e.g., loan performance based agreement conditions negotiations). Often compromise called upon one, or all parties, to grant concessions and to be confrontational.

Efficient, expeditious development of the Sierra Leone microfinance sector, and effective investment of public capital, were explicit outcome goals strongly related to donor coordination. Donor coordination was deemed necessary to “guarantee” these outcomes (UNCDF, 2004b, p. 6). Technically and officially, MITAF was governed by UNDP rules and procedures. Practically, the IC not only worked to coordinate donor investment in Sierra Leone and evaluate investment proposals, but functioned as a governance mechanism. For example, the IC would regularly have the TSP give account of activities and provide direction under the broad authority of donor coordination. Yet the awareness that many actions may not have been official, and the practical reality that there was not an UNDP authority giving management direction to the project, represented a task-performance challenge to *effective, efficient, impacting* execution. The dimensions of coordination ranged from broad donor activities in the sector to specific MITAF program direction, as in coordinating activities in the microfinance sector on the ground in Sierra Leone.

MITAF collaborative partners working to coordinate activities explicitly included “Government, Donors, Private Sector (Investors, Commercial Banks, Rating Agencies), MFIs” (UNCDF, 2004b, p. 12). The collaborators in MITAF agreed, by virtue of deciding to partner, to perform in line with, and optimally coordinate to advance, the government’s microfinance policy (UNCDF, 2004b). Despite this, mutual agreement is subject to numerous interpretations (Barnard, 1938; Ostrom, 2005). For example, MFIs “largely free from government and political interference” may be understood differently by various partners (UNCDF, 2004b, p. 22). This reference to partners agreeing to perform in line with the government microfinance policy illustrates the centrality of power in defining performance. Consider, for instance, how government advocacy for domestic MFIs in IC disbursement deliberations was deemed by some participants as unwanted political interference and by others as an important representative voice,

> Respondent: Yeah. It’s, yeah, it’s true that the advisory committee, under MITAF 1, had a veto right which, in my view, and also in the view of [two other IC members], after discussions, is, is not consistent of the idea what an advisory committee should do…Because the advisory committee is a political forum and we, we do sector, what we call sector dialogue within advisory committee forum and talk about the overall development of the microfinance sector and relate issues, but there are people from the

> government and from the Bank of Sierra Leone sitting in the advisory committee in MITAF 1, which should not know any details about the submitted investments by individual MFIs (Interview 9).

Below is a perspective of government involvement in MFI submitted investment opportunities, which seems to imply there are dimensions where involvement is not interference,

> Investigator: When you run into that type of dynamic at the board meeting [strong influence over the direction of a meeting by a committee member], you try to, what's your response to that? How do you, how do you guide the meeting when that kind of activity is going on?....
>
> Respondent 2 : I think there is also now central bank on the other side.
>
> Respondent: Yes, central bank.
>
> Respondent 2: Central bank tries to harmonize that because they try to balance when they see there is a lot of swaying this way they will try to put it in the middle, that's what I've seen at least. And you find that in most cases they are also pro-local institutions so that's where the balance comes in (Interview 3; Interview 4).

The donor below also refers to the central bank[61] as making a positive contribution to the meeting,

> …the criterias they have to meet before they can access funding… for some of the local MFIs, you know they might need some capacity building in some area and so I see it is very relevant because the Bank of Sierra Leone then comes up with these issues that look, I mean this is an international MFI. They have the capacity to meet these criterias, but we still have our national MFIs who will need to build their capacity (Interview 11).

More than the specific performance definition, who defines and measure it is a central determinant of success. In MITAF controlling power ranged from gridlock in the early years to focusing on benefits from each partner's strengths and employing resources (including staff selection) appropriate for MITAF in the final couple of years. One donor described IC learning as reflecting expressions of distinctiveness and variableness (dimensions),

> [J]oint cooperation of six years and continuous meetings every six months in Sierra Leone, physical meetings, I think we learned to understand each other and to come to a consensus and to a joint vision of microfinance much better…. And of course, in the past, these different approaches or accentuations kind of clashed because we were not always of the same opinion, but I would say, that it is for the project and for the

[61] Originally a central bank representative chaired the Investment Committee. In 2008 the project document was amended to change the role to chairing a newly created Advisory Committee, with no direct participation during Investment Committee deliberations.

> development of the microfinance sector in Sierra Leone that these different types of microfinance development approaches are complimentary to each other and are also enriching to each other and are conducive for the overall development in the microfinance sector (Interview 9).

Capital flow was affected by collaborative behavior. This investigation discovered numerous examples. Empirically MFIs not sharing information about borrowers (e.g., credit bureau) resulted in higher defaults and write-offs, which tended to cause disbursements to be later than expected in MFI business plans. This MFI behavior was related to competitive pressures, which were also visible in competition for staff. Such pressures illustrate both the limits of collaboration when providing services in a market context and dilatory effects of competition (Mollenkamp, 2011; H. Simon, 1996). In turn, disbursement conditions are not satisfied and capital is not disbursed. Within organization collaboration was illustrated in the reference to the donor with other programs in the nation that assisted with monitoring developments in client MFIs, which also had potential ramifications for capital disbursements. Donors experienced preference constraints by agreeing to use common performance indicators, reporting, and performance based agreements (PBA), which simplified processes for MFIs that had multiple donors using different formats. Moreover, collaborative behavior, both within and between organizations, affected capital flow.

Interactions were often permitted but not required of participants. MITAF worked with MFIs to identify specific areas for targeted assistance and resulted in improved financial performance and outreach. MFIs were often not required to participate in MITAF trainings, and participation reflected a spirit of collaboration. This enabled MFIs to satisfy disbursement conditions and reduce the waiting time for capital investment. Also, the apex negotiated disbursement condition waivers with donors that reduced volatility for MFIs that demonstrated improved performance, but had not achieved industry standards. Similarly, donors negotiated directly with MFIs for disbursement conditions more lenient than MITAF policy. The result was disbursed capital with less volatility. Policies and PBA provisions required first tranches to be disbursed within 14 days of PBA consummation and implicitly called for disbursement conditions compatible with the nascent MFI sector in Sierra Leone. In essence, Bureaucracy of collaboration is a property that provides insight into how collaboration is linked with capital volatility.

7.3.1.2 Bureaucracy of Accountability

The central determinant of success in Bureaucracy of Collaboration is also at the heart of key questions involving accountability: Accountable for what? Accountable to whom? Accountable how? (Slim, 2002). Answers to these questions, all related to power positions, determined what accountability meant in MITAF. Dimensions of accountability in almost any setting can range from laissez-faire to micro-managing (Derksen & Verhallen, 2008). MITAF was no different. However, making sense of accountability involves considering how various factors and dimensions applied to participants. MITAF partners' power relative to one another varied according to the measurement and mechanism assessing accountability. Accountability to commitments is central to creating the interdependence needed in collaborations. Making sense of accountability is aided by using three factors: effectiveness, reliability, and legitimacy.

In Bell's (2010) article discussing accountability networks, literature on accountability mechanisms for nongovernmental organizations is used to develop a comprehensive construct helpful in viewing accountability in MITAF. As pointed out in this construct, core competencies and information enhances an organization's credibility and directly relate to *effective service deployment* (Bell, 2010; Brown & Moore, 2001). *Reliability* can be viewed in governance terms, such as board composition, financial stewardship, leadership, policies and procedures, and others (Jordan, 2005; Kearns, 1996). *Legitimacy* factors include "transparency, mission-focused activities, connection to the community" (Bell 2010, p. 43). Legitimacy, reliability, and effective service deployment provide a robust explanation of accountability when added to dimensions of measurement.

Kearns (1996) explains that dimensions of accountability are explicit and implicit. For instance, explicit standards are found in MFI disbursement conditions. Implicit standards are found in MFIs expecting donors to be moved to faster action as they better understand the constraints of providing financial services to a particular population. Participants in MITAF had broad constituencies that occasionally encountered conflicting goals (Dunn, 2010). As a result, goal clarification efforts (e.g., negotiated accountability) reflect the implicit and ill-defined shifting characteristics of certain measurements (Kearns 1996; Slim, 2002). These dimensions of accountability and the three factors of accountability combine to provide a comprehensive construct: "serving in accordance with the negotiated explicit and implicit standards for effectiveness, reliability, and legitimacy in order to benefit clients, volunteers, employees, contributors/donors, and the public" (Bell 2010, 43).

Bell's accountability construct serves as an organizing mechanism in the Bureaucracy of Accountability. For example, in 2006 the mid-term evaluation was an intervening condition related to the expeditious consummation and disbursement of many capital investment deals. On the other hand, the final evaluation in 2009 did not result in equal effectiveness. All three factors in the construct, according to explicit dimensions of measurement, were going to find MITAF broadly coming short at the mid-term evaluation. The evaluation's focus, however, gave room for the implicit measure of demonstrated learning as a response to cited short-comings: "The mid-term evaluation will be forward looking offering lessons learned and recommendations to improve programme performance or national policy during the remaining project period" (UNCDF, 2004b, p. 10). The expeditious capital investment activity during the mid-term evaluation year and immediately following demonstrates that learning was taking place and evidenced in action before the report was released (Thomson, 2010). The 2009 final evaluation, on the other hand, was focused on the changes needed to remedy the continued difficulties of MITAF 1. Owning the discovered on-going difficulties served as evidence in support of the proposed new structure. The dimensions in the final evaluation had an implied greater weight on the proposed response (MITAF 2) than on the summative assessment of the project that ended (Easterly, 2006).

Bureaucracy of Accountability and various dimensions were also evident within organizations, as opposed to between MITAF participants. MITAF's struggle to track and account for capital disbursements was fraught with bureaucratic complexity between the TSP's main office in Mexico and a difficult tracking mechanism in Sierra Leone. UNDP's decentralized, locally responsive bureaucracy illustrated one dimension of accountability, while the UNCDF centralized multi-level review and approval process demonstrated another. In addition, MITAF and each donor demonstrated a distinctive ability to consummate deals and disburse capital during the year an accountability mechanism was administered (mid-term evaluation). Within-donor organization dimensions are reflected in the following donor's response,

> Person: Up to which extent you can make decisions that binds [donor] and that's a problem we had. You know you can, you can decide. You can say ok, let's say for example, the [a different donor] is kind of, is, has a rank of director in [the different donor]. [Person] can make decisions right away, which is approved by the [the different donor] management. Which is not the case for [donor]…say oh, ok, I really would fund this and this because we think that this relevant and it makes sense to fund this. Ok? But then, they go back…will say oh, no, no, no, we don't want to fund this….

> Investigator: And that sense of uncertainty impacts things.
>
> Person: Impacts, not only impacts things, but impacts also the behavior. If you are sitting across from someone from [donors] who fully represents the institutions, and you're not, it doesn't feel like you can represent the institution, you feel, you hesitating. You see? (Interview 6).

Donor representative behavior was also affected by their organization's accountability mechanisms that were perceived to constrain and provide authority. Given that IC meetings discussed new investment opportunities and tranche disbursement decisions, these perceptions impacted capital volatility (e.g., hesitating).

Within organization dimensions also existed in MFIs. Reporting outreach and financial performance data was a type of explicit, effective resource deployment accountability. MFI tactical decisions were observed to be directly tied to outreach and financial performance requirements for capital disbursements. Similarly, MFIs answering credibility and representation questions for people in their community when expected capital was not available could be considered a type of implicit legitimacy accountability. As depicted in Figure 9 earlier, overlapping accountability with collaboration and effectiveness, as well as viewing behavior as acts of accountability alone within the organization, helps make sense of the behavior and capital flow in MITAF.

7.3.1.3 Effectiveness, efficiency, and impact (EEI)

EEI focuses on results and achievement through good stewardship. Stewardship is a concept central to public organizations, such as governments and NGOs. It involves judiciously employing resources to serve the public interests (Block, 1996; Davis et al., 1997; Meagher et al., 2006; Zietlow, Hankin, & Seidner, 2007). The oft cited work of Peter Block (1996) places EEI squarely in the discussion of stewardship,

> Stewardship can be most simply defined as giving order to the dispersion of power (p. 18)….the spiritual meaning of stewardship: to honor what has been given to us, to use power with a sense of grace, and to pursue purposes that transcend short-term self-interest (p. 22)….Part of the meaning of stewardship is to hold in trust the well-being of some larger entity—our organization, our community, the earth itself. To hold something of value in trust calls for placing service ahead of control…. (p. 41)

Actions often were directed by effectiveness, efficiency, and impact (or responsiveness), expressed as goals and performance measurements. MITAF focused heavily on explicit performance indicators designed into the project and participants were highly responsive to these measures, though not always with expected and desired behaviors. Evaluation practitioners acknowledge that some important aspects of program performance are not defined a priori (Blakewell, 2007). Tactics and strategies were developed to guide assigning responsibilities with the aim of achieving results. Consequently, the important question is *who* defines EEI more than *what* the measures are (Block, 1996; Easterly, 2006). The answer reveals relative power positions. EEI dimensions have some normative features, ranging from impersonal operational assessments to expressions framed by missions, and characterize the dual-bottom line tension between commercial performance and social mission.

Actions within organizations, including tactics and strategies, are an important aspect of the EEI property. Chapters five and six provided examples of actions various participants directly related to capital volatility. These examples were drawn from PBA consummation, MFI operations, and donor disbursement processes. Additional examples of unintended and undesired behavior to effectuate EEI are in the data. According to MFIs, their tactics and strategies (behavior) were in response to the incentives of performance indicators incorporated in deals as conditions for capital disbursement. For instance, the MFI below had an improved financial self sustainability (FSS) during a quarter in 2010, but an extremely high caseload per credit officer, according to official documents,

> FSS [financial self sustainability] improved to 93.03% from 84.71% last quarter and OSS [operational self sustainability] is 106.15%, increasing from 103.27% last quarter. The increase in FSS is a result of fewer adjustments for TA [technical assistance] as [the MFI] received no TA from MITAF this quarter. The high PaR30 is attributed to the high case load per loan officer…(MITAF Narrative Report-1st Quarter 2010, p. 7).

Although the apex attributes the improvement to fewer TA adjustments, the managing director of this MFI discussed using the strategy of increasing caseloads to satisfy capital disbursement conditions. There were numerous examples of improved EEI due to MFI operational changes implemented through MITAF provided technical assistance. The MFI below, which received on-site technical assistance in 2008 and 2009, referred to the resulting procedures,

> Because MITAF, they have provided a lot of facilities for us…We don't know what operational manner or financial manner but they recommended a RTA [resident technical assistant] to us who worked with us for almost a year. He put up all this assembly (Interview 5 others).

The resulting organizational intelligence (enhanced performance) withstands tendencies toward increased capital volatility.

The definition and measure of EEI expresses and reflects power within CBT. In MITAF, and the broader Sierra Leone microfinance sector, the EEI property illustrates the weakness of the commercial-political dichotomy contained in the Programme Support Document. Power illuminates aspects of the property's dimensions when commercial based key performance indicators focused on market share and financial performance are juxtaposed to social indicators focused on impact to Sierra Leoneans' quality of life (Kettl, 2007). Rules that defined what was required to be classified as effective, efficient, or impacting were legitimized based on stakeholder's perceptions regarding the relevance of distinctions and importance of measurements. The tensions found in demands for universal treatment while working in an environment requiring innovation and contextual adaptation involved judgments by those in power (Stone, 2002).

Judgments resulted in variations in the use of key performance indicators as conditions for capital disbursements and were presented in the prior chapter. Capital investment decisions and disbursements in 2006 and 2008 were analyzed utilizing performance criteria espoused and included in PBAs compared to actual performance. The different situational contexts of those deals (i.e., mid-term evaluation and PBA consummation) illustrated the power of external (transparent evaluation) and internal (a donor participant) forces affecting the linkages between behavior and capital flow. Use of key performance indicators were recognized as expressing EEI dimensions as self-interest (self over organization) shrouded as stewardship (organization over self) because of MITAF's structure,

> So institutional, institutional development was, was kind of hindered by, or at the expense of…fulfilling the MITAF criteria…(Interview 9).
>
> I must say that these type of indicators [institutional disbursement conditions] were not very often proposed by the TSP. These were the type of things that we came up later with a, with making really the contract (Interview 7).
>
> So let's say the project document is drafted in 2003, by 2006, the total sector has changed, everything has changed. So the TSP sticks with what was asked from him, within the document, he would miss a lot of what's going on. That's true. That's true. And it happens….But, that's why they have this midterm review. Ok? So the midterm reviews should really, really help fine tune some of the, the, the outcomes. And then, and then, so that we can say to the TSP, Ok, now, here are the real outcomes you have to look at. But it's not sufficient, I think….They [donors] will ask him [TSP] and say, ok send us an annual report. And the annual report will say ok, we've done this, this. For outcome 1, this is what we have done. For outcome 2, this is what we have done. But for all the rest that are not specifically in the document, the project document, or even in the contract, it could be missed….But at the same time, the question is, do you think that as a TSP, as…a donor contractor, you could ask the consultant to come up with something that is

> not in the terms of reference, or …come up with different structuring of the TORs, in terms of referencing? That's, you know. That's difficult actually (Interview 6).

> This conflict of interest was exacerbated by the fact that the TSP's contract was performance-based and its compensation was contingent upon achieving project targets; an inherent tension was created between encouraging PLIs [partner lending institutions-MFIs] to expand and helping them to build capacity. Further, ambitious project goals dictated that the TSP also identify and ensure capacity-building for numerous other local recipient institutions at meso and macro levels as well as administer the project overall. Fulfilling these multiple roles exceeds the capacity of one consulting firm and contributed to limited results at the meso and macro levels (Duval & Bendu, 2009, pp. 9, 10).

Data reflects a strong awareness and belief that MFI institutional development was inadequate, thus threatening MFI sector sustainability, regardless of aggregate measures of outreach and financial performance suggesting success. Thus, the power to define EEI is a substantial consideration in researching behavior-volatility connections.

Linkages between behavior and capital flow volatility can positively impact social performance by *utilizing* bureaucracy, not for *replacing* social performance as the driver, but as a mechanism guided by the same mission (Hummel, 2008). Mission is about values. It is an expression of values as a statement involving dedicated time, talent, and treasure focused on a pursuit or end (Jurik & Cowgill, 2005). Impact, or a responsive orientation, in human services initiatives is distrusting of effectiveness and efficiency due to the danger in focusing on achievement without meaning (Thomas, 2008). Profit without social purpose captures impact to masquerade as altruistic when, in fact, success is defined as sustainably operating as measured by commercially framed indicators, such as market share in the façade of outreach. This aspect of the property reflects dimensions embedded in sustainability-social performance ontological tensions.

The EEI dimensional epicenter focuses on sustainability. Sustainability, at the core, is about reliability and stability. It has been decided the people of Sierra Leone need reliable access to financial services. Commercial banking institutions are accessible to relatively few. "Moneylenders" extract an exorbitant price (Kooi and Tucker 2003, p. 19, 23). Microfinance institutions have proven to be reliable and accessible to many people in developing nations throughout the world; however, this requires a certain level of capital and consistently operating with revenues exceeding expenses (i.e., profit). Although the magnitude of capital and profit is hotly debated, it is generally agreed by stakeholders from all persuasions throughout the world that both are required for microfinance to provide people reliable, stable access to financial services. MITAF aimed to develop financially sustainable MFIs. However, it struggled in developing strategies to enhance institutional capacity while incorporating *trends* toward industry standards rather than strategies focused exclusively on MFIs *reaching* industry standard targets.

7.3.2 Viewing MITAF deals through CBT

CBT theory provides a perspective of behavior-volatility relationships to make sense of observations and predicting behavior and volatility in certain contexts. Aggregation of deals in 2006 and 2008 are used in this section to apply the theory. In addition, unique outlier deals are used to demonstrate CBT's limits. There are three basic questions involved when applying the model to capital investment deals:

- What is the prevailing relative weight of CBT properties?
- What is the prevailing alignment of the properties relative to:
    - Commitment to collaboration compared to individual organization imperatives?
    - Alignment with individual organization imperatives (i.e., degree of responsiveness to organization stakeholders and targets of performance)?
- What are the proclivities toward capital flow in the deal?
    - Relevance and nature of stakeholders' interest.
    - Deal particulars (e.g., grant or loan; purpose of the investment-operating capital, technical assistance, loan capital; conditions for disbursement-industry standards, condition relative to MFI status).
    - Conditions related to a tranche's disbursement (e.g., pending external program evaluation, any target imperatives of funding source).
    - Individual organization characteristics (e.g., level of MFI dependence on MITAF, donor preference for type of MFI, length of relationships).
    - Considering these key factors, utilize a scale with "perform then payment" at one end and "payment then perform" at the other.

The next section demonstrates model use, reflecting analysis presented in the previous chapter.

7.3.2.1 2006 deals: Collaboration, Accountability, EEI

As mentioned earlier, MFIs not approved for capital investments in 2006 were relegated to having fewer deals during MITAF. MFIs not receiving deals in 2006 had the lowest average number of deals of any group not receiving commitments for a year. Closer examination revealed 2006 deals were disbursed quickly: 43.5% disbursed within twelve months, compared to 34% for 2009 deals. Volatility was primarily related to self-interested behavior, or the stewardship antithesis. This disbursement observation is associated with accountability. The most outstanding difference between 2006 and other years was the MITAF mid-term evaluation, which is an accountability mechanism. The capital investment machine worked to demonstrate and create an empirical record that MITAF, as of 2006, was an improved, learning organization. Behavior in 2006 proved to be the touchstone illuminating linkages with capital volatility. CBT properties aligned to reflect a primary emphasis on collaboration and accountability, with less emphasis on EEI.

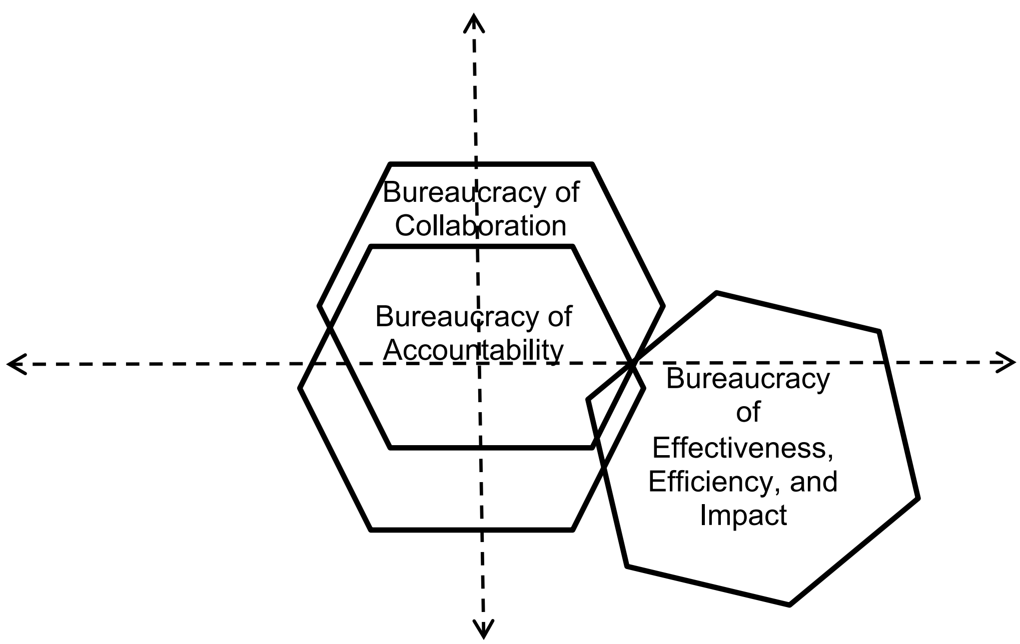


Figure 10: 2006 deals—Collaboration, Accountability, EEI.

CBT properties in practice are separate and distinct, but also overlap. Like two variables with interaction effects in measuring dependent variable variance, combined contribution of properties is not merely derived by addition. The overlap reflects the complexity and duality observed in interactions involving behavior and capital flow. The alignment of collaboration and accountability is reflected in their overlap in Figure 10. The respective weight is viewed three dimensionally with accountability in the forefront, followed by collaboration, then EEI. EEI is slightly aligned with accountability-collaboration combination, and slightly with accountability without collaboration. The alignment is reflected by the hexagons relative placement whereas the dimension of each property is reflected by placement on the axes.

The *x* and *y axes* are used to reflect the dimension of the property on a range. Placement on the *y-axis* (vertical) reflects location on the collaboration properties scale. High scales represent dimensions of activity relatively more aligned with MITAF, lower dimensions represent those relatively less aligned with MITAF. Placement on *x-axis* (horizontal) reflects location on the scale for accountability and EEI. These two properties can be observed independently of the MITAF collaborative (i.e., individual organizational activity). The left of the scale represents dimensions of activity relatively more aligned with individual imperatives, while dimensions on the right represent relatively less responsiveness to individual organizational imperatives (e.g., considered not responsive to the organization's stakeholders). For all three properties the center represents ideal alignment where MITAF and individual participant imperatives are the same.

As described earlier, 2006 deals did not give substantial consideration to MFI performance considerations (e.g., MITAF espoused EEI). However, there was remarkable collaboration in consummating deals and disbursing capital. This was determined to primarily be driven by the MITAF mid-term evaluation as an intervening condition. This explains observations of constrained volatility. Moreover, disbursement deliberations on deals in similar conditions (e.g., impending external evaluation, constrained disbursements to-date) with CBT properties configured similar to Figure 10 will likely find a bureaucratic mechanism that constrains volatility. This can be stated with greater certainty provided the proclivity of the given property, like the relative number of positive and negative charged atom particles, is toward disbursement.

7.3.2.2 2008 UNDP/YES deals: EEI, Accountability, Collaboration

Youth Employment Secretariat (YES), a UNDP program, provided capital used to invest in 50% of 2008 MFIs receiving IC approval. YES capital was invested by UNDP as a MITAF IC member. As explained earlier, deals involving YES capital were distinctive in part because there was no evidence of:

- Delay in PBA consummation,
- Dispute on disbursement conditions,
- Post-PBA consummation disbursement delay, or
- Premature disbursement criticism.

Capital volatility was constrained, and loan portfolio quality improved into 2010. Figure 11 presents the model assessing behavior-volatility linkages in 2008 YES deals.

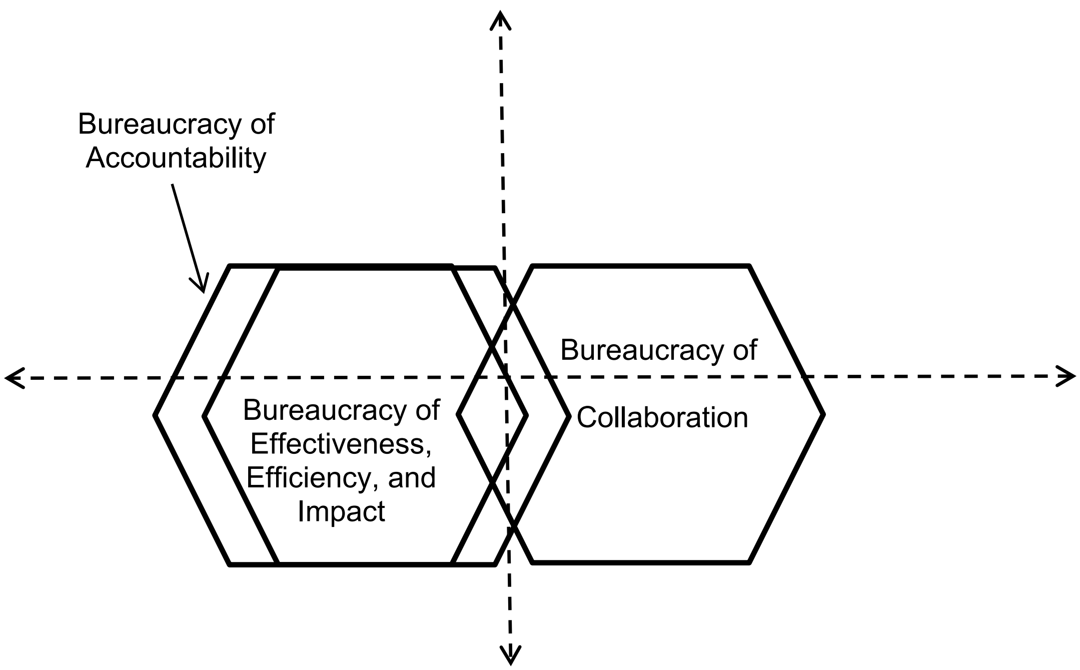


Figure 11: 2008 UNDP/YES deals—EEI, Accountability, Collaboration.

YES deals reflected an emphasis on individual organizational imperatives, but not to the exclusion of collaborative commitment. The alignment of EEI and accountability is reflected in their overlap in Figure 11. Collaboration also overlaps with EEI-accountability combination, and to some degree with EEI without accountability. There are, however, substantial areas of nonalignment. Viewed three-dimensionally, EEI and accountability are on the same level followed by collaboration at a deeper level. The relatively decreased emphasis on collaborative commitment is reflected in the property's relative level and relative small amount of hexagon overlap.

YES deals were distinct in the EEI property of CBT due to an apparent emphasis on program targets different from MITAF and actions taken to be accountable to YES program aims. The YES-MITAF memorandums of Agreement and Understanding were not obtained for this investigation. Nevertheless, evidence of their execution and observed capital flow and organizational behavior support the conclusion that each organization agreed to collaborate and accept some level of cost (e.g., MITAF accepted industry standards subordinate to YES social goals for disbursement decisions, YES accepting MITAF IC process for selection of MFIs receiving investment). Development agencies and the Sierra Leone government considered incessant and ubiquitous unemployment among youth a serious threat to stability (UN-Sierra Leone, 2008). Weakness in youth empowerment and employment was considered the greatest peril to peace of several concerns identified. Official documents underscored the importance of urgency, "realizing immediate and quick impacts that will help bring visible and tangible peace dividends to the population" (UN-Sierra Leone, 2008, p. 2). The urgency imperative was addressed by several initiatives, including the Youth Employment Scheme (a.k.a., Youth Employment Secretariat, Youth Enterprise Development, and Empowerment Scheme). EEI for YES shared MITAF's espoused urgency imperative; however, it also focused on a population segment (i.e., youth) and did not give considerable weight to the capital delivery mechanism's capacity to be self-sustainable.

YES was a three year project created to immediately provide support to existing and new businesses owned by young people. It provided start-up capital, training, and other services to empower youth operating in both the formal and informal sectors. But, as discussed before, a central challenge in poverty alleviation efforts was an effective capital delivery mechanism. One such mechanism in Sierra Leone was microfinance institutions. However, microfinance sector was capacity-challenged and also required an appropriate capital delivery mechanism. YES looked to MITAF as an effective capital delivery mechanism for MFIs. United

Nations-Sierra Leone utilized its UNDP membership on the MITAF IC in a strategy to effectively and urgently disburse capital to unemployed young people interested in developing businesses. It seems MITAF, in turn, accommodated the YES initiative's definitions and measures of EEI while using MITAF's EEI definition and measures as subordinate criteria in making deals. More importantly to this investigation, it seems MITAF's EEI was also subordinate in capital disbursement decisions. This subordination is reflected in the model by the collaborative property at a lower depth level, overlapping less with the other two properties, lower position on the *y-axis*, and rightward positioning on the x-*axis*.

7.3.2.3 Outlier deals

The collaboration property is the only property where MITAF is represented. Capital disbursements not exhibiting this property reflect bureaucratic dimensions of organizational participation in the deal. That is, MITAF espoused rules had no effect. Participating organizations may share some of the same rules and reflect behavior that would have been observed if MITAF was involved. Such outlier behavior can be modeled with CBT theory and is reflected in Figure 12. Activity outside the collaborative by collaborative-participating organizations is not reflected in the collaborative official records. That said, to the degree behavior was outside of MITAF, it had associated costs and benefits. CBT theory acknowledges behavior outside the collaborative (Hypotheses 2, 3, 7); however, such behavior's capital value affects are not postulated.

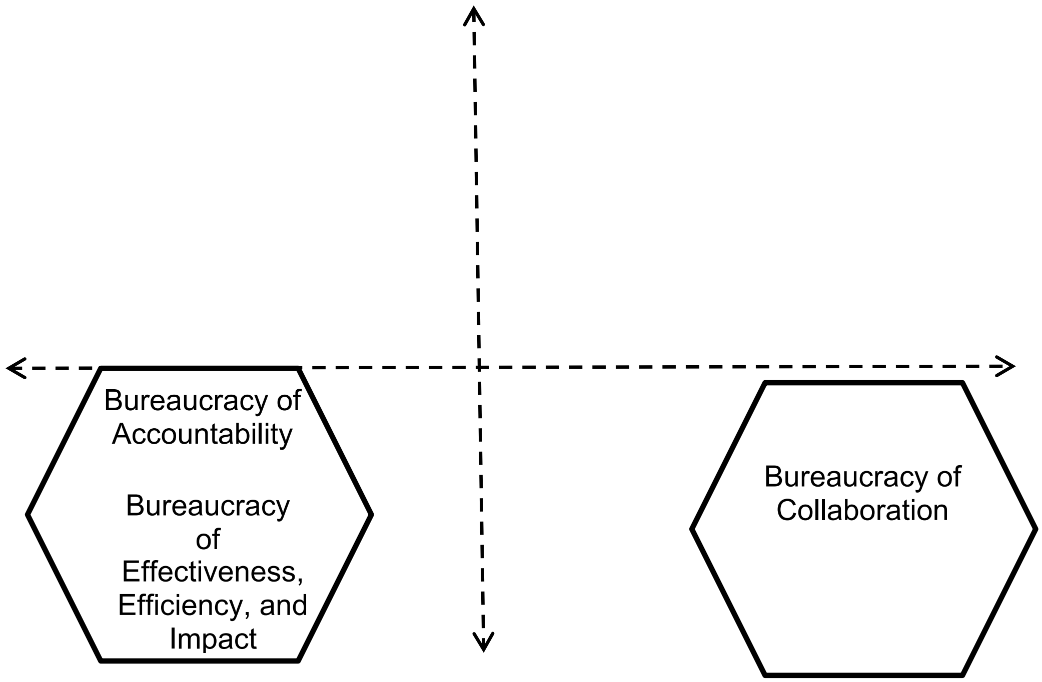


Figure 12: Outliers—Accountability, EEI, Collaboration

There were deals consummated outside of MITAF that were attributed to it. This is reflected in Figure 12 by the collaboration hexagon placed low, and to the far right. Each IC member engaged in this activity, though it was rare. As mentioned earlier, there were capital investments made without prior IC approval by an IC member. Subsequently, the deals were added to the MITAF portfolio of commitments and data in official records. Data is insufficient to determine organization disbursement activity with a high level of confidence. For example, it is not clear what role the apex had in determining the MFI's satisfaction of disbursement conditions and request for disbursement of tranche(s). Official records seem to reflect one deal consummation taking no more than 60 days. Also, records seem to reflect it was fully disbursed no later than five months after consummation. Data at consummation reported the MFI's PaR at more than double industry standards; therefore, it did not conform to MITAF's financial performance standards. PaR decreased approximately 20% during the following two quarters. Also, outreach went down during the quarter of consummation, but increased slightly the following quarter. Data available suggests this outside deal disbursed with low volatility to an MFI that did not perform at MITAF's EEI standards. The accountability and EEI hexagon overlap reflects perfect property alignment, but lack of collaboration overlap and placement low and far right indicates the deal was outside of MITAF.

Once capital flow leaves the collaboration certain dynamics come into play. Some dynamics are outside the scope of focused analysis in this investigation. For example, capital flow viewed through CBT as substantially outside the collaboration may experience low volatility. However, CBT theory realizes there are devaluing effects of being outside the collaboration. Though devaluing effects other than volatility are outside this investigation, the MITAF collaboration attribute is associated with constraining transaction costs. Numerous transaction costs are increased outside the collaboration, such as learning and obtaining capital by MFIs (Coase, 1937; H. Simon, 1996; Tucker, 2011). The value-preserving effects of low volatility of a deal outside of MITAF may be offset by transaction costs related to capital flow activity outside the collaboration.

The three examples, described above, illustrate how to apply the CBT model. It can be applied to aggregate deals, such as 2006 and 2007. The model can also be applied to individual deals, such as the outlier deals. Applying the model allows linkages to be viewed in a manner to examine effects and assists developing responses to certain behavior-volatility linkage configurations. In addition, the model can be used to configure *what-if* scenarios to aid program design.

7.4 SUMMARY

This chapter set forth a theory for understanding the linkage between organizational behavior and capital flow volatility. The theory, Capitalflow Bureaucratic Triad, explains how organizational behavior within a contemporarily designed collaborative bureaucracy is linked with capital disbursement timing, aids predicting behavior and volatility in certain contexts. The characteristics, or properties, of bureaucracy were described: collaboration; accountability; and effectiveness, efficiency, and impact (responsiveness). Collaboration was portrayed as a structure of authority, defining the participant subassembly of IAD: learning capacity, power, and credible commitments. That is, official relationship-defining documents (e.g., Program Support Document, MITAF terms of donor participant agreement, MITAF Manual, performance based agreement) set forth mutual commitments, as well as required, permitted, and forbidden actions. The collaboration was also the space for participant discretion within the collaborative (e.g., MFI discretion in employing a deal's capital).

In the chapter accountability was described as involving effectiveness, reliability, and legitimacy measured by implicit and explicit standards. Accountability in MITAF ranged from within the collaborative to totally outside the collaborative. When it was within in some measure, volatility was constrained to varying degrees. In deals when collaborative accountability was given no weight, volatility was also constrained to varying degrees; however, transaction costs associated with non-collaborative behavior had capital devaluing effects. Similarly, deals where EEI was defined and measured within the collaborative experienced volatility to varying degrees. Also, deals that gave less weight to the collaborative experienced volatility to varying degrees. However, when the collaboration was given no weight or activity occurred outside the collaborative, there were capital devaluing effects.

CBT theory, including associated properties, was explained by seven hypotheses representing major relationships. Comprehensively, CBT was demonstrated to be grounded in data by applying the model to phenomena observed in MITAF. The property hexagons of the model were applied to observed behavior detailed in the prior chapter. Capital flow experiencing varying degrees of volatility involving MFIs with varying conditions (e.g., outreach, financial performance, governance) were associated to the different hexagon patterns. Linkages between organizational behavior and capital volatility are explained by the CBT theory, which informed development of several policy recommendations.

8.0 POLICY IMPLICATIONS: RECOMMENDATIONS AND FUTURE RESEARCH

What does MITAF teach that will inform organizational behavior and capital flow within collaborative arrangements? The biggest challenge in the collaborative effort, within and between organizational group types, was demonstrated clarity of a common perspective and the ability to rapidly locate the effort in a place of agreement such that outcome values were not diminished by capital volatility. Evolving perspectives on the properties and dimensions of key MITAF outcomes and assessment methods were particularly important. Where and how to move in adjusting various perspectives was central to initiating organizational actions and disbursing capital investments such that all were equally uncomfortable, but all agreed there was progress (Barnard, 1938).

The chapter begins by providing recommendations about how to affect organizational actions and capital disbursements. This is followed by a research agenda outline. First, attention is given to four strategic take-aways developed from examining MITAF. *One strategy is directly addressing exogenous variables, or environmental factors, to minimize delays in capital disbursements.* Encouraging gains in MFI organizational intelligence can be quickly stifled or completely reversed when environmental factors constrain MITAF type projects. *Another strategy requires realizing that changes in human behavior and life style status are long-term propositions. This strategy calls for employing the combined skill sets of the team to expeditiously assess the situational context, detect and assess contextual changes, and maintain a calculated action-orientation.* The multicultural team each organization brings to function within the collaboration will account for the variance experienced in behavior and capital volatility, within a context.

Accounting for variances in behavior-volatility linkages necessitates collection of quality and relevant data. *An important strategy is to provide sufficient funding and marshal sufficient resources to collect data and employ the rigorous processes required to inform learning and make thoughtful, nuanced, strategic decisions as the program progresses.* Data are processed and organized to develop key definitions used as information employed by actors in decision making and actions. *Finally, a synergistic strategy involves accounting for the project's* *commitments; tracking money is only part of accounting.* Entering collaboration makes transactions consummated one-on-one between donors and MFIs subject to additional commitments that must be accounted for. The four strategic recommendations affecting public organization actions and capital disbursements are based on the premise that public policy *administration* is the *actual* expression of policy and it speaks to espoused theories' relevance in attacking societal problems. These recommendations are explicated with backing from literature and the investigation's data.

Second, the chapter outlines a research agenda extending work in this study. MITAF Sierra Leone was one of eleven capital delivery mechanisms introduced as UNCDF collaborations in Africa. Analyzing these projects could provide additional insights regarding behavior-volatility linkages, and will add to the sparse data available in order to better understand these phenomena. Exploring accountability as effectiveness, reliability, and legitimacy to better understand MITAF participants' views and constructs for ranking importance of various strategies can improve efforts to bridge communication and performance gaps. Moreover, examining MITAF participants beliefs about how their views have changed regarding defining and measuring effectiveness, efficiency, and responsiveness can help explain and assess organizational learning related to constrained capital volatility. The agenda presented aims to tackle the complex organizational behavior associated with development in Sub-Saharan Africa and post-conflict areas.

8.1 ENVIRONMENTAL FACTORS AND CHANGE

One unanticipated finding during this investigation is how various development programs in Sierra Leone underestimate depletion and devastation caused by colonialism and the war. The human potential in Sierra Leone is remarkable; however, the existing aggregate human talent is desperately low. In addition, the structure and resources needed to engage human capital is very often absent or remarkably inadequate. One government agency concept paper prepared in early 2011 (not directly related to this research) requested assistance from civil society organizations by explaining that government staff was inadequate and unmotivated. Encouraging gains in MFI organizational intelligence can be stifled or completely reversed in short order without proper attention to environmental factors shaping MITAF type projects.

The IAD framework used to organize the presentation of this investigation suggests that outcomes from interactions can, over time, change exogenous (environmental) variables (Ostrom 2005). The framework did not suggest the impact is as direct as environmental factors on the arena where organizations interact; rather only as interactions continue to produce results the factors shaping the interaction may change. The concern here is that outcomes are excessively relied on to change environmental factors (e.g., MFI regulation and informal economy) that shape the arena of interactions, such as MITAF. *Exogenous variables, or environmental factors, must be directly addressed to minimize delays in capital disbursements.* Project outcomes, often reflected as investment deal disbursement conditions, can be severely constrained when market incentives and punishments operate unchecked in an imperfect market environment, and when market-regulating institutions are weak. This seems to be especially the case in a post-conflict fragile state setting. It can take considerable time to observe substantial shaping of environmental factors by outcomes from organizational interactions; direct action is needed to shape environmental factors.

Meso and macro institutions are environmental level factors that are vital to maintain and improve micro level outcomes. MITAF had the right idea. *Meso level institutions, such as industry associations, credit exchange agencies, and support services like independent audit firms are important to developing a sustainable pro-poor financial sector in Sierra Leone.* Unfortunately, MITAF was not able to completely achieve the galactically huge project mandate, which included meso level development. An important item for future exploration is how these environmental factors affect MFIs that have experienced a period of sustained growth and financial performance. Do MFIs continue the positive trend without development of meso level institutions? Does stagnation set in? Do MFIs experience decline? How is capital volatility affected? These are important questions regarding meso and macro institutions relationships with MFIs growth and sustainability.

Apex organizations are also a vital meso level institution. Meso level institutions that provide capital are especially germane. The Rules on capital flow that shaped MITAF are best understood in terms of organizational theories than market theories. Literature reviewed suggested that Sierra Leone's underdeveloped markets and pro-poor financial sectors did not provide the capital the country urgently needed. Simon (1996) explains that economist use externalities and uncertainty to explain the benefits of organizations over markets for a lot of economic activity. The more important reason, according to Simon, is actors provide additional effort to benefit the collaborative because they benefit more from collaborative learning than by incurring the cost of learning independently. Both capital investors and MFIs benefit in critical ways from meso level capital-providing institutions, thus minimizing factors that increase capital volatility.

Monitoring external factors closely is important to developing a pro-poor financial sector in a context like Sierra Leone. The metaphor of the frog in the water pot with the heat continually, gradually rising is *apropos* to maintaining focus on environmental factors. If external factors are not given careful, consistent attention the same factors that constrained the sector's development will inhibit its growth or worse (Duval & Bendu, 2009).

8.2 LEADERSHIP AND TEAM SKILL-SETS

An important strategic take-away from this investigation involves people. Each organization, group of organizations, and the project as a whole should invest considerable attention toward the people selected to be involved with its activities (primarily and secondary),[62] especially at the outset. This recommendation applies both to MITAF and individual participant organizations. The evidence showed team compilation made a difference in capital volatility. People must work to diligently understand the perspective of other players and find an initial place of agreement where action can, and does, take place; "Great vision without great people is irrelevant" (Collins, 2001, p. 42). System knowledge and expertise enable administrative tasks to be completed without delay and prevent bottlenecks due to carelessness and inattention to detail. The ability to ascertain and appreciate, within and between, organization differences aids in minimizing behaviors that contribute to capital disbursement delays. *The multicultural team each organization brings to function within the collaboration will account for the variance experienced in behavior and capital volatility, within a particular context.*

[62] Organizations have people directly involved in the collaboration, such as donor representatives attending Investment Committee meetings, TSP staff managing day-to-day operations, and MFI staff in direct communication with MITAF/TSP. There are also people involved indirectly, such as processing requests for disbursements at the donor, MFI staff preparing MITAF reports, and MITAF staff performing certain financial tasks at the home-office.

The effect of leadership and team composition on behavior and capital was visible from the mid-term evaluation, responses in interviews, and records of disbursement activity. The mid-term evaluation suggested capital investment decisions did not reflect sufficient risk-taking in smaller MFIs. The evaluation and this investigation's interviews reflected the need for MFI capacity building, including training, procedures, policies, tools, and systems. Quick, targeted, measured capital investments were needed for training, operating capital, and on-site technical assistance (that also could serve as monitoring function). The record reflects meaningful capacity enhancement in MFIs early on; however, they were deemed to still have substantial weaknesses (Duval & Bendu, 2006). Initial MFI trainings could have served creation of increased awareness and general knowledge diffusion more than behavioral modification.

Trainings are also opportunities to gain insight into perspectives by all parties. Regional and on-site trainings could have assisted in encouraging participation. In MITAF, apex on-the-ground team members varied in attributes to assess and monitor the environment with the intent of disbursing capital to MFIs in a targeted manner utilizing appropriate disbursement techniques (e.g., pre/post utilization documentation, direct/indirect to MFI/supplier). Collaborating organizations selecting team members able to quickly assess the environment, continually monitor it, and with a *freedom* and *propensity for action* is vital to behaviors that constrain and minimize capital volatility, especially in the crucial first 18-24 months. In post-conflict fragile state collaborations, it is not selecting a team before organizational structure, but selecting a team with freedom and a propensity to act that facilitates organizational learning and intelligence (Collins, 2001, 2005; March, 1999; Picard & Buss, 2009).

People able to assess and respond effectively to the performance orientation of their team and collaborative partners are vital, especially during the beginning of a project (Kearns, 2000). These people, regardless to title or rank, are leaders (Barnard, 1938). These leaders, including formal leaders (e.g., authority positions) can potentially facilitate mutually agreed progress that creates momentum for performance rapidity, such as MITAF mandated. One party involved in MFI assessment provided support for this point by discussing leadership and management as roles,

> Person: No, frankly speaking, from the management cohort, leadership and management are different, they are two different. You can be a manager and not a leader. You can be a leader but not a manager but we aren't going to treat it the same. But we are normally, in many cases we have, like in the community bank we have identified already the leader in the bank.

Investigator: And a leader in that bank would, what would a leader look like as an example?

Person: The leader is the guy who inspires everyone, the guy who motivates people, he might not be the manager himself…

Person: Believing

Investigator: Believing?

Person: People believing, you're a team player.

Investigator: Ok

Person: If I could give you an example, most of the community bank you discover that the person who is really up and running some of them are the accountants, not the manager himself. Maybe it's an accountant, maybe it's operations manager, even at [MFI] for example. The guy who I thought was the leader there was the operations manager, apparently had just left. Yesterday, four other people just left. But if the CEO, the chief executive officer who is the manager, but people don't believe in him (Interview 3, 29:45).

Similar observations were also found in the Global Leadership and Organizational Behavior Effectiveness Research program (GLOBE), which investigated *performance orientation* in organizations and societies. GLOBE was created to add to the body of knowledge pertaining to cross-cultural interactions (see Appendix J). The study found that performance orientation was the most valued of seven scales by societies around the world. This scale includes encouraging and rewarding "innovation, challenging goals, and improvement" (Javidan, 2004, p. 248). A performance-oriented society is *desired* across societies; however, the desire does not always positively correlate with *perceived practice*.

An example of differences between desire and perceived practice can be found between Sub-Saharan African nations and Germanic Europe region nations.[63] Sub-Saharan African nations scored higher than Germany and the Netherlands on the importance they place on performance orientation; however, they scored generally lower on the assessment of *perceived*

[63] See Appendix J. The Germanic Europe cluster of nations was based on research conducted and published by Simcha Ronen and Obed Shenkar, (1985), "Clustering Countries on Attitudinal Dimensions: A review and synthesis," *Academy of Management Review,* 10(3), 435-454. The Sub-Saharan Africa group, as used by GLOBE, was not established by prior empirical research. Characteristics of the group include values of "reciprocity, suppression of self-interest, the virtue of symbiosis, and human interdependence" (Gupta & Hanges, 2004, pp. 187, 188).

practice.[64] Interestingly, the study found finance industry respondents on performance orientation to be most correlated with overall society, both in terms of perceptions of what is valued and practiced, than those in other industry groups sampled. A person from a high performance oriented society, as reflected in perceived *values* and *practice*, may interact in a collaborative with people from another nation with a greater variance between perceived value and practice than those in their own nation. Such an experience may cause the person confusion and frustration as the talk-and-the-walk of people from nations with a higher variance does not seem in alignment. For some people, observing misalignment between talk and action results in certain value judgments that are prone to divide more than unify (Kearns, 2000). For example, such an observation could be interpreted as intentionally misleading. A global orientation, such as understanding the perspective of others, can go a long way to minimize behaviors that promote capital volatility, such as division between collaborative actors.

An example from MITAF can illustrate a challenge of perceptions and perspectives. An interview excerpt presented earlier expressed a perspective regarding a divide in north-south development paradigms that were perceived to affect behaviors in MITAF in ways that were linked to capital volatility. An interview with another respondent also provided an enlightening response regarding the suggestion of a north-side divide affecting capital flow,

> Investigator: For example, I visited with an MFI, and they said to me that the TSP at one point did not understand how business operated in Sierra Leone. I paraphrased there. They said the Chief of Party had a northern mindset. But that there was a change to someone who understood southern paradigms…
>
> Person:…I would not agree to this statement...the question is really what does this MFI member, or do the people that think, in the same direction, what do they think the south paradigm and the Sierra Leonean business paradigm is about? I mean microfinance is a pretty clear exercise, a pretty clear business, and although there are of course significant differences in local and national contexts, I would say that microfinance from Bangladesh and from India and or from America does not differ very much from microfinance in Sierra Leone. Of course Sierra Leone has its particular challenges and some national requirements or whatever, but the core business of microfinance still remains the same. So I really wonder what these people that think that we are dealing here or we are having a north-south discrepancy will be meaning as they say it. I mean of course we have a zero-tolerance – that means we do not accept any extra...bribes…(Interview 9).

[64] Also, *Tropical Wet and Dry* climates, like Sierra Leone, had a variance of over 60% between society values and society practices for performance orientation; however, *Marine West Coast* climates, such as Germany and the Netherlands, had a variance almost half as much (Javidan 2004, pp. 260, 261).

Differences in experience and perception are important factors when team members and leadership can make an immediate and project-long difference (Harvey et al., 2002). There is an extensive body of knowledge on north-south perspectives on development in collaborative arrangements (Ashman, 2001; Derksen & Verhallen, 2008). The MFI spoke of the north-south divide in reference to access to resources, or capital disbursement. The other respondent seemed puzzled by the idea and queried about what the MFI thought the Sierra Leonean business paradigm consisted of in the context of microfinance. In addition to reduced tension between the government and the TSP, the most empirically clear difference from the chief of party change in the excerpt is the timing of disbursements.

The team and leadership, with various backgrounds and points of view, are vital to developing mutually agreed to goals and for achieving them. *The combined skill sets of the team should expeditiously assess the situational context, detect and assess contextual changes, and maintain a calculated action-orientation while realizing changes in human behavior and life style status are long-term propositions.* Observations from a recent study in Sierra Leone underscored this point,

> Development is obviously perceived as a vital factor in preventing and combating violent instability. But it is also extremely important to keep in mind that in post-conflict situations, goals such as development, sustainable growth, social stability and political accountability may take some time to be implemented, and the professionalism, commitment and quality of the work of NGOs' staff becomes a key element in the path to rebuilding the nation and guaranteeing its future stability (Momo et al., 2011, p. 1).

Attributes of staff and their freedom to act affects the power aspect in the Bureaucracy of Collaboration property where performance (mutually agreed to goals) is defined (Kearns, 2000).

In addition to freedom, action requires leadership. Skills sets are key elements in an international collaboration involving market mechanisms and financial institutions/rules with social and cultural ramifications, such as MITAF (Picard & Buss, 2009). In addition, complementing skills sets are important. Remember the donor that shared how the IC gained organizational intelligence by capturing the learning from teams interacting,

> [J]oint cooperation of six years and continuous meetings every six months in Sierra Leone, physical meetings, I think we learned to understand each other and to come to a consensus and to a joint vision of microfinance much better…. I would say, that it is for the project and for the development of the microfinance sector in Sierra Leone that these different types of microfinance development approaches are complimentary to each other and are also enriching to each other (Interview 9).

Freedom to employ approaches, including skill sets, that distinguish each participating organization allowed for the benefits of complimentary synergy to be realized by MITAF (Barnard, 1938). Freedom to act speaks to the centrality of organizations having an orientation and environment that thrives on cultural and generational diversity (Springer, 2011). The leadership and staff in the collaboration understanding each other, reaching agreement on goals, and operationalizing a joint vision can help minimize capital volatility.

8.3 DEFINITION CHANGES AND DATA

As important as the team composition decisions are, so are the actions and decisions involving key definitions and data. From inception, MITAF placed a high priority on data (Duval & Bendu, 2006; UNCDF, 2004b). Key definitions are important information developed from data, whereas data are building blocks, a substance of information (Blair, 2001; Hendrick, 1994). Organizational learning and intelligence are based on actions and decisions informed by key definitions and data. In other words, data are processed and organized to develop key definitions. In turn, key definitions are used as information employed by actors in decision making and actions. Examples of producers and reservoirs of huge amounts of data include:

- Environmental factors
- MITAF actors
- Capital flow
- Actor interactions
- Credit history and life style indicators of borrowers

Data are processed into information servicing actions and decisions shaped by, and shaping, key definitions.

As understandings improve and new levels of agreement are reached (information), definitions change. Definitions of acceptable performance standards change. Definitions of what constitutes a waiver changes. *A focus on trends, while developing the sector to operate in accordance with industry standards, can result in definition changes. It is important to provide sufficient funding and marshal sufficient resources to collect data and employ the rigorous processes required to inform learning and make thoughtful, nuanced, strategic decisions as the program progresses.* This is money beyond capital investments to service delivery organizations (MFIs). Developing microfinance sectors in contexts like Sierra Leone requires aggressively attacking information asymmetries, including data acquisition-dissemination and organizational learning translated to organizational intelligence, thus connecting data and action.

Two points forcefully made during this investigation connected data and action: the importance of trends reflecting performance direction, and assessing progress toward the overarching goal of reducing poverty. Comments from two participants drive these points home,

> What I'm interested in, in any commitment, are the trends. Are the trends positive or not? And this is an important statement because, I can give you an example which is not even Sierra Leone they had that. We had that discussion even during the last investment committee...So, are we going to relax a little bit the portfolio at risk that we expected MFIs to have because of some contextual factors that could impact negatively? Yes, we can. We can discuss that because usually we are talking about 5, total is 5% but in some contexts, up to 10% (Interview 5).

> From my point of view, the biggest question mark and the greatest interest is certainly in the IMPACT of donor contributions to the microfinance client. Do all these capital flows really help poor people?...With targeted interviews and field research, one could find out the different impacts of diverse types of microfinance interventions, e.g. comparing BRAC with other types of MFIs and deposit-taking/ non-deposit taking institutions. Besides the practical relevance, impact of MF capital flows in SSA [Sub-Saharan Africa] is of great interest in science (Donor email, September 2010).

These comments reflect dynamics of a learning organization in a challenging context. Although a key goal was MFIs operating according to industry standards, MITAF underscored the importance of organizational intelligence reflected by MFI positive performance trends in a nascent sector like Sierra Leone. MITAF also highlights the importance of performance reflected in deals containing terms and conditions that align with data-supported, unique attributes of MFIs and the target population. IC interviews and, at times, MITAF actions demonstrated more consideration of MFI uniqueness rather than inflexible homogenization to implement industry standards. Organizational intelligence (sustained improvement in performance) resulted from learning and employs a systemic view informed by data beyond the specific MFI performance indicators and MITAF outcome measures (e.g., implementing industry standards in MFI operations). Included is understanding the importance of trends developed by sufficient, relevant data, beyond *what* to *why* (Collins, 2009; DiMaggio & Powell, 1983; Jurik & Cowgill, 2005).

Dynamics harnessed to inform actions can result in an empirical record of learning and March's (1999) organizational intelligence. This learning and intelligence is important to future development efforts, including work to reduce capital volatility. The subtleties and undercurrents associated with creating an atmosphere of collaboration, hope, and expected success (i.e., confidence) are exploited by praising and rewarding achievement. This is done while also understanding and responding to non-improving trends and questionable impact. A response from a donor (provided earlier) discussed positive re-enforcement for achievement, and assistance for those performing below targets. While an initiative may have sound mechanisms for formal legitimacy, confidence of participants and intended beneficiaries is also required for public organizations to effectively perform (The World Bank, 2000). Confidence and successful performance are important considerations in an accountability ethos supported by credible information from quality, relevant data.

One MFI shared a very telling thought that speaks to subtleties and undercurrents resident in an environment of hope and expected success that affects capital disbursement,

> You know microfinance is very new program in this country. We are used to sending a proposal, but a proposal is quite different from a business plan. So, sometimes we have to take us time actually to put a business plan. We have to finish a projection. That is very much important. We have to set our target. We are to go from here before the end of 2010s from where will you be. So you have to talk of all of those things. If they are not in place, no way [no capital disbursement]. So these are some of our challenges. But **with that**, [emphasis added] they [MITAF] have been conducting a series of trainings actually. Yeah (Interview 5 Others).

Challenges and obstacles accompanied *with that* believed to be sufficient to overcome create an expectation of success and greater confidence when confronted in the future with the unknown and unfamiliar (Momo et al., 2011). *The learner believing and buying into the lessons and practices taught is important to increased knowledge and awareness (e.g., key definitions). These aspects of the learner are also important to changes in behavior (actions and decisions) that improve performance and reduce capital volatility, especially after behavior is directly connected to specific capital investments* (BBC, 2011; Thomson, 2010).

The following excerpts from interviews and the MITAF final evaluation underscore this recommendation,

> But believe me, when we went through it [adding a branch office], and I said this was what (MITAF) deprived us of, the ability to learn, to know. You know. When people are given the opportunity to learn, to know, to test, the learning is stronger. Hmm? (Interview 1).

> I like Sierra Leone. But we spend a lot of money on training and in many cases, many people who we trained, very many, 10% of the people we have trained, they have come back and applied what they learned. We need a lot of training of trainers but…out of maybe 20 people only 2 people that I can identify and say I can even use them…The rest, it's a country problem. There's no label; now the standard are gone. I can't blame

> them for that. So that's what we need….on one hand we try to bring in new discipline into the sector to enforce best practice, we call them performance based agreements and they work to enforce best practice in the sector. But if you look on the other side, you enforcing, we are getting, forcing the horse [MFIs] to drink water (Interview 3).

> The TSP is to be particularly commended for identifying many regional consultants to act as RTAs [resident technical assistance] for the MFIs. However, the technical assistance provided by both ESGC [the TSP] staff and the RTAs identified by the TSP and financed by the project seem to have had little lasting impact on many of the MFIs. Although the assistance generally was appreciated by the PLIs [partner lending institutions, MFIs], few of the institutions seem to be applying the systems and policies developed by the RTAs. In the estimation of the evaluation team based on discussions with the PLIs in question, this is partly due to…the fact that ESGC staff and the RTAs tended to develop manuals and plans for the institutions rather than guide them in developing these materials for themselves (Duval & Bendu, 2009, p. 29).

Quality, relevant data is vital to developing credible information used to increases performance—organizational intelligence. MFIs selected for leadership development in the sector and presented as models need to be substantive partners in shaping a systemic leadership model. However, a leadership model shaped by MFI superficial conformance to certain output measures without strong, deep controls can experience failure (Collins, 2009), exemplified by ProCredit discussed earlier. This view of data and leadership development (changing, adapting) is central to organizational learning in CBT. Quality data is important to develop credible information used in learning that is shaped and embraced by MFIs. In practice, MITAF redefined performance (to some degree) as new and better data emerged.

8.4 RECORD KEEPING AND ACTION: IT'S ABOUT THE MONEY, AND MORE!

MITAF struggled with maintaining records of capital investment activity. The challenge was exacerbated by donors remitting directly to MFIs without notice and before disbursement requests were submitted by the TSP. Delays in consummating a performance based agreement similarly impact disbursement record keeping. The structure of MITAF itself, though expedient and helpful in the beginning, contributed in some measure to struggles. The diversity and complexity of activity made record keeping a significant challenge for the TSP's approach to the task. Nevertheless, it was empirically demonstrated that challenges were manageable when there was sufficient motivation for the parties involved. *It is important to account for the project's commitments; tracking money is only part of accounting.*

Stewardship requires accounting for MITAF commitments. *UNDP in Action: Delivering on Our Commitment to Development,* references their 2007 strategic plan and underscores the importance of this strategic recommendation: "The plan stressed the importance of delivering programming in an effective and accountable manner with measurable and transformative results" (p. 2). The stewardship mandate associated with delivering on commitments is akin to promises that are integral to economic systems (chapter one, Microfinance is Banking). When capital flows directly from a donor to the MFI it is less a financial accounting issue because it employs resources to effectively satisfy the MITAF commitment. A deal between a donor and an MFI was not just that; it was also an MITAF commitment. The investment package was presented to the IC,[65] which first acts on the investment opportunity. It was then an individual donor got involved to varying degrees through completion of the performance based agreement and disbursement of all the capital, in accordance with the MITAF commitment. C*ollaboration begets one-on-one transactions between donors and MFIs that are subject to additional commitments that must be accounted for.*

MFI understanding of capital investment commitments, and how they perceive donor and apex behavior relative to those commitments, should be expected to inform MFI actions. Although capital market development is environmentally important and centrally necessary for developing an inclusive financial sector in developing countries (Imboden et al., 2006), it is not best employed as the primary mechanism in post-conflict fragile states. Governments and donor communities would be wise to not rush quickly to the normative framework visible in today's huge, tech savvy capital markets. Initiatives like MITAF function as financial intermediaries[66] and should not employ less people-centric, more big-technology centric mechanisms that assume behavioral reputations matter less (Davidoff, 2011; Van Slyke, 2005). Not only is reputation an "important enforcement mechanism" (Davidoff, 2011), but is used in asymmetrical power relationships by less powerful actors, such as MFIs in many capital investment deals, to protect against exploitation (Cook et al., 2005). MFI reporting and capital disbursement behavior is an important record keeping-capital volatility connection.

---

[65] In a very few instances it appears donors invested directly in MFIs without IC approval and MITAF was credited with the investment.
[66] See chapter three's discussion of apex organizations.

For the MFI, the deal included both MITAF and at least one donor from the start. Resource dependent MFIs may agree to the deal even if they believe it is unlikely they will satisfy the conditions committed to. What do they have to lose? If they do not enter the deal they are without the capital investment. If they enter the deal and default on their obligations they are without the capital investment. If they enter the deal, there is a chance they will satisfy the conditions, or that a wavier may be granted. For MFIs the commitments are often about a survival sense; the motivation is the desperate need to acquire capital that consumed 50-60% of the director's time prior to MITAF (Tucker email, March 2011). *Accounting for MITAF commitments is about the money, but it is also about stewardship of promise keeping.* The motivation for MITAF, including specifically donors, to manage the challenges of accounting for capital disbursements is that *MITAF made a promise*. A normative, intrinsically motivating, promise was provided in a communiqué after an IC meeting informing the MFI a decision was made to enter a capital investment deal. With that notification delivery, time started and commitments were made. In addition, MITAF did not have viable alternative means of accomplishing its mission (Thomson, 2010). Making credible commitments was so important to MITAF's mission that not transparently accounting for activity related to each promise carried potentially reduced the value of its capital.

Cook and her colleagues (2005) contend that transactions involving bankers, absent power equality, often use "reputation systems" as a source of information to assess actors' reliability and trustworthiness. Reputation not only has properties that encourage reliable behavior to preserve future business opportunities (Davidoff, 2011), but it is an important assessment tool for the less powerful to avoid being exploited (Cook et al., 2005). Research involving relationships with power asymmetry has found that if the more powerful party makes a commitment sufficient enough to convince the less powerful party that their desire for trust is genuine, then balance of power can be adjusted (Cook et al., 2005). In essence, power relations can reflect interdependence where more trust can be realized with associated benefits.

The interdependence of this collaborative necessitated that donor and apex actions were consistent with rhetoric involving rapidity in the MITAF commitment, or *mission*. The contextualized importance of timeframes in Sierra Leone capital investment commitments has been made clear. The UNCDF Results-Oriented Annual Report 2007 characterized MITAF as a "high risk niche," a reflection of the donor's "risk-taking nature" (p. 2*). It is important that there is consistency between committing capital investment to rapidly develop the sector and the conditions employed for disbursement.* The goal is MFIs performing in accordance with industry best practice. However, providing capital to a sector considered nascent and high risk, while imposing disbursement standards of best practice during the first 36-48 months, is not always consistent with a commitment to rapidly develop the sector. Entering a deal with disbursement conditions substantially inconsistent with the performance trend is inherently problematic.

A recent microfinance study in Sierra Leone addresses timing and best practices. It suggested the following strategies for MFIs: "Do not abandon best practices. In post-conflict environments, sustainability may take longer to reach, and the repayments especially in the earliest phase of the programme may be lower than usual" (Momo et al., 2011, p. 8). The goal to perform in accordance to MFI industry standards is advanced by *mission accountability tracking* of capital invested and disbursed, including when and to whom. A donor's response provided earlier underscored that MITAF capital investments are venture capital. Though not a license for careless due diligence, it is not unexpected to write-off over 20% of the deals. Advancing the mission in Sierra Leone placed a strong demand on donor's risk-taking predisposition.

In summary, the four strategic recommendations are:

1. Monitor external factors to ensure the environment is conducive for sustainable growth of the financial sector. This is important to minimize capital volatility and ensure organization learning is retained as intelligence reflected in enhanced performance. Ensuring conduciveness requires direct action that impacts the environment and employs meso level organizations.

2. Effective leadership and competent staff should be given early attention. Thoughtfully consider the people selected to be involved throughout the project (in project location and elsewhere), especially at the outset. A multicultural team embodies the organizational attributes and intelligence needed to account for variance in behavior within a context involving organizations from various nations, and in capital volatility. The organization with an orientation and environment that thrives off cultural and generational diversity achieves high level performance. People that can assess and respond effectively to the performance orientation of their team and collaborative partners are vital, especially during the beginning of the project. The combined skill sets should expeditiously assess the situational context, detect and assess contextual changes, and maintain a calculated action-orientation while realizing changes in human behavior and life style status are long-term propositions.

3. Provide sufficient funding and marshal sufficient resources to collect data required to inform learning and make thoughtful, nuanced, strategic decisions as the program progresses. Definitions change as organizational intelligence grows and new agreements are reached among collaborators. Organizational intelligence, sustained improvement in performance resulting from learning, employs a systemic view informed by data beyond the specific MFI performance indicators and MITAF

outcome measures, including understanding the importance of trends. Aggressively attacking information asymmetries and making changes that a dynamic context requires is central to creating and maintaining a sense of hope among participants. Quality, relevant data are vital to developing credible information used in learning that increases performance—organizational intelligence. The learning organization believing and buying into the lessons and practices taught is important to increased knowledge and awareness, as well as changes in behavior that improve performance.

4. The project's commitments must be timely and accurately accounted for. Stewardship requires accounting for MITAF commitments. Credible commitments have value, similar to loan notes discussed in chapter one. Entering collaboration makes one-on-one commitments between donors and MFIs subject to additional commitments that must be accounted for. Accounting for MITAF commitments is about the money, but it is also about stewardship of promise keeping. It is important that there is consistency between committing capital investments to rapidly develop the sector and the conditions employed for disbursement. Tracking money is only part of accounting. It also includes accounting for commitment stewardship, such as stipulated timeframes to process performance based agreements.

8.5 CONCLUSION AND FUTURE RESEARCH

Linkages between behavior and capital volatility is important for both industrialized nations and the developing world. Minimizing outcome-devaluing linkages is vital for effective performance and organizational intelligence. This is critical for developing nations where the devaluing impact of volatility is multiples of industrialized nations. Moreover, volatility in resource dependent relationships requires those in power to be highly sensitive to the importance of credible commitments. Underdevelopment and destabilization often hang in the balance of making sense of the connection between behavior and capital flow.

There is much to learn beyond the insights from this investigation. The UNCDF collaborative sector projects, MITAF being the first, can yield valuable data on linkages between behavior and volatility. A similar investigation exploring these other collaborative projects can test the CBT lens and may yield additional insights on the linkages. In addition, the data would allow for a comparative analysis yielding rich findings beyond the scope of this investigation. Further investigating legitimacy, reliability, and effectiveness in MITAF can excavate important variances that can inform sense making of behavior and volatility linkages. For example, obtaining data from stakeholders that MITAF participants identify as key can provide valuable insights into evaluative construct differences. In addition, deeply exploring these relationships to identify and assess "accountability fatigue" can provide insights to undesirable effects (2010,

p. 6). Additional research analyzing tensions between volatility, effectiveness, efficiency, and impact can provide interesting, rich insights on perceptions and beliefs regarding trade-offs. Furthermore, constructs used by different participants in measuring EEI, including relative weights, can help identify and bridge gaps that exacerbate capital volatility. Measuring impact of microfinance has been a difficult challenge that arguably begins with understanding different perspectives and measures of impact (Derksen & Verhallen, 2008). This future research agenda suggests that there is complexity associated in combining aid with organizational behavior in collaboratives and in Sub-Saharan Africa.

There are no simple answers or formulas to change behaviors contributing to capital volatility or vice versa. Organizational learning is found in cognizance of environmental factors, organizational and contextual histories, relative importance of individual and collaborative imperatives, and developments on the ground. Monitoring environmental factors and taking direct action are important. Leadership and team are important, as are valuing and committing data to eliminate crippling information asymmetries. Intrinsic motivation to embrace commitment stewardship is another important property that is linked with capital volatility.

The complexity and interconnectedness found in seeking to understand linkages between behaviors and capital volatility can easily overwhelm the seeker. Intransience, stubbornness, bullying, and dishonesty are examples of the easily available unpalatable explanations that lead to simple prescriptions. On the other hand, viewing complexity and interconnectedness through the Capitalflow Bureaucratic Triad lens can subside the overwhelming waves. Collaboration; accountability; and effectiveness, efficiency, and impact combine to make sense of dedicated organizations that work to make substantive differences and remain relevant in an increasing perilous, dynamic, and challenging world.

APPENDIX A

ARCHIVAL DOCUMENT DATA SOURCES

Annex A Client Growth Figures (MFI Growth)-4th Quarter 2009

Annex Donor Breakdown-December 2009; March 2010

Annex Individual Portfolio Reports-December 2009; March 2010 (for each MITAF MFI)

Annex MFI Write Off Summaries-December 2009; March 2010

Annex P Training Participants Chart-December 09

Annex U TSP and Training Financial Report- July to December 2009

Cordaid MITAF Participation Agreement

Emails-direct personal correspondence

Field Notes

Good Practice Guidelines For Funders of Microfinance; Microfinance Consensus Guidelines (October 2006, 2nd edition)

Investment Committee Policies and Procedures Manual-MITAF July 2006

Investment Committee Preparation Procedures

Loan Approval Form

MFI Grant Approval Letter

Microfinance Insider; April 2010, Issue 1

Minutes of the MITAF Investment Committee Meeting of Friday, November 6, 2009

MITAF Final Evaluation 2009

MITAF Mid-term Evaluation 2006

MITAF Narrative Report-1st Quarter 2009*

MITAF Narrative Report-1st Quarter 2010*

MITAF Narrative Report-2008 Final*

MITAF Narrative Report-2nd Quarter 2009*

MITAF Narrative Report-3rd Quarter 2009*

MITAF Narrative Report-4th Quarter 2009*

Performance Based Agreement-Final 2009

Planet Rating Girafe Assessment of MFIs (three individual MFI assessments performed in July and September 2009)

Post-Conflict Action & Microfinance in Sierra Leone (Report published by Spanda Foundation, The Hague, The Netherlands)

Programme Support Document (UNDP Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone 2004-2009)

Proposed Grant to the Republic of Sierra Leone for the Rural Finance and Community Improvement Programme (International Fund for Agricultural Development, Presidents Report: Executive Board-April 17-18, 2007)

Restructuring MITAF-October 2009

Sierra Leone: Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility (IMF Country Report: No. 09/215 July 2009)

Sierra Leone: Selected Issues and Statistical Appendix 2009 (IMF Country Report: No. 090/12)

Updated Funding Criteria for MFIs-June 2007 (Annex to Investment Committee Policy Manual)

* coded for data fragmentation and theory development

APPENDIX B

INSTITUTIONAL REVIEW BOARD DOCUMENTS

Subject Recruitment Script

Hello. My name is David Bell. I am a doctoral student with the University of Pittsburgh in the United States and am researching the MITAF project. Specifically, I am seeking to learn about the relationship between the behavior of organizations such as *a microfinance institution—apex organization—donor-funder* and the characteristics of the flow of capital from donors to microfinance institutions. I would like to visit with you for about 30-45 minutes and view any materials you believe would be valuable to my learning. The questions involve three categories: describing the process; challenges to the operation of the process; design features that should be changed, added, or deleted. Is there a day and time I can come by and visit with you?

Pre-Interview Statement:

Hello. My name is David Bell. I am a Doctoral student at the University of Pittsburgh, and I am conducting research on the relationship between organizational behavior, such as *a microfinance institution* and the characteristics of capital flow from donors to microfinance institutions. I would like to ask you questions about the process of disbursing funds from the time an investment is approved until all the money is disbursed and available to the microfinance institution, including the organizational behaviors that affected disbursement decision-making. With your permission, I would like to record this interview to better assist me in my data coding and analysis. I would also like to stress that I will observe the standard practices of professional conduct throughout this research process. As such, your identity will remain strictly confidential and will not be included in the interview transcripts or the final report.

PROJECT INFORMATION

The purpose of this research is to understand the linkages between the behavior of participants in the Mircrofinance Investment and Technical Assistance Facility (MITAF) Project and the characteristics of the capital flow from Investors to Partner microfinance institutions. For that reason I will be studying various documents and interviewing the staff of participant organizations in MITAF. The questions involve three categories: describing the capital flow process; challenges to the operation of the process; design features of the process that should be changed, added, or deleted. The initial interview will last approximately forty-five (45) minutes. Follow-up interviews may or may not occur and involve varying lengths, normally less than forty-five (45) minutes. If you are willing to participate the interview will be about the process of disbursing funds approved for investment to a MFI, as well as your beliefs about the operation and design of the process. There are no foreseeable risks associated with this project, nor are there any direct benefits to you. The information and data collected will be treated with the utmost confidentiality. Reports generated from this study will in no way identify individual responses, or reveal information about the participant's organizational connections. Though vital to this research, your participation is voluntary, and you may withdraw from this project at any time. This study is being conducted by David Bell, who can be reached at 01.412.418.8117 or **DBell1@aol.com**, if you have any questions.

EMAIL REQUESTING VALIDATION MEETING

Greetings

I hope all is well with you and you are preparing for a great week of independence celebration!

I've had a fantastic 2 months here in Sierra Leone. My research on MITAF 1 is about finished. There is one more piece it would be great to complete. I would like to meet briefly with you to get your reaction to a two page document I've prepared. The amount of time need be no more than our first time together, probably less.

May I come see you on

Thanks for considering my request and helping with my learning.

David A. Bell
PhD Candidate
GRADUATE SCHOOL OF PUBLIC AND INTERNATIONAL AFFAIRS
University of Pittsburgh

PRE-INTERVIEW STATEMENT FOR CAPITALFLOW BUREAUCRATIC TRIAD VALIDATION INTERVIEW

(Not previewed by IRB)

On this sheet of paper [document handed to interviewee] is a brief summary of MITAF, its participants, and operations relative to disbursing capital. After describing MITAF a tool for viewing the behavior of organization and the connection with the timing of capital flow is offered. It is the goal of this tool to account for and explain, as much as possible, the different types of organizational behavior and capital flow timing, or volatility. This includes the connections between organizational behavior and capital flow timing, without regard to which is the cause.

I am going to read through this description and would appreciate your making note of any thoughts. Afterward, I would appreciate your taking as much time as you like to review it, ask any questions and make any comments about your belief on how completely it accounts for the different types of behavior and linkages with capital volatility.

APPENDIX C

STORYLINE MEMO

The Microfinance Investment and Technical Assistance Facility (MITAF) was a context where organizational actions/interactions were linked to capital flow. Microfinance institutions (MFIs) are one group of participants in MITAF. Participating MFIs were seen as possessing the best potential to lead and serve as a model for the sector. They were selected by the MITAF Investment Committee (IC, as recommend by the apex through applying the rules (criteria) for selection. The MFIs have various structures, histories, and organizational missions.

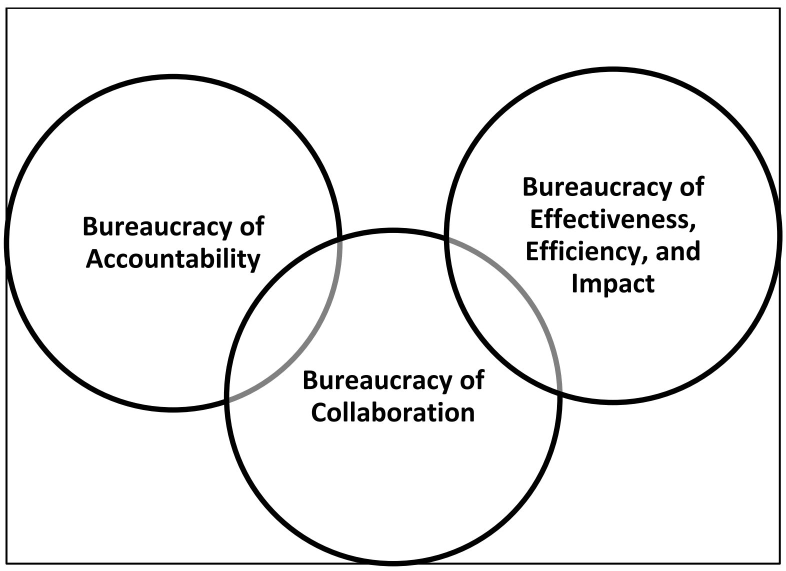
Another set of participants is the Investment Committee (IC) comprised of four donors pledging a specific minimum amount of capital to the project. Similarly, these represent various structures, histories, and organizational missions. These four donors are among the leading investors in Sub-Saharan Africa microfinance sectors, measured in terms of number of nations and amount of capital.

The final participant is the technical service provider (TSP), or the apex. The apex organization is the functional apparatus of MITAF. It is charged with achieving broad outcomes that at times conflict. The MITAF collaboration involved different types of organizations, based in different nations, from different perspectives, committed to a common mission with separate individual missions that, at times, were in conflict with the collaborative commitment.

From the time the IC approves an MFI investment package numerous, diverse, and complex organizational actions/interactions occur that are linked to capital flow. Beginning with written notice of approval provided to the MFI by the apex, through and until the last tranche of capital is disbursed, there are complex interactions between organizational behavior and capital flow. Some behaviors assist timely flow of capital, some delay the flow of capital. The difference in time is volatility. The linkages between organizational behavior and capital volatility are explained by three interconnecting properties of bureaucracy.

Many definitions of bureaucracy have developed over the years. It has come to be associated with inertia, ineffectiveness, inefficiency, and dehumanization. Many years ago this was not the case. Bureaucracy was a response to special interests' power and favoritism. Bureaucracy was understood as an administrative approach emphasizing clear lines of authority impersonally exercised. Rule-governed actions executed by competent experts were used to ensure consistency in performance and equitable treatment. Bureaucracy involved defining the task, breaking it into each of its parts, and matching skills to what needed to be accomplished. This included staffing based on competency, and decision making based on the most efficient, most effective options. In fact, bureaucracy in its basic form is still the organizational skeleton preferred by organizations, public and private, all over the world.

The traditional view of bureaucracy only partially fits the MITAF experience. As a result a more contemporary, complex view of bureaucracy is used to view the activity in MITAF and understand capital volatility. The view of bureaucracy has the properties of: collaboration; accountability; and effective, efficient operations that result in positive outcomes for the poor.



Bureaucracy of Collaboration: Provides for and challenges group commitment and individual restraint. Donors work together to invest capital in opportunities. It requires flexibility to accommodate a wide variation in goals. Effective coordination of the complexity is important. Getting work done when no one is in charge is a challenge. The art of compromise through balance of power is important. MFIs work together to develop capacity and control losses. The TSP works with donors, MFIs, Bank of Sierra Leone, and other resource providers, including consultants. Donors work together to make investment decisions in accordance to the collaborative commitment while remaining true to their respective organizational missions.

Bureaucracy of Accountability: The attributes serving and resisting managerial oversight, governance, transparency, and various stakeholders at the expense of narrow interests. Often involves both top-down pressure and bottom-up pressure for various stakeholders. For example, disbursements to MFIs are tied to satisfying conditions, which have pressure from MITAF to improve financial performance while communities are pressuring for increased access to financial resources. As goals vary so too do the results. In the process accountability becomes less clear.

Bureaucracy of Effectiveness, Efficiency, and Impact: Those features designed to produce quality outcomes and doing so at the least cost, challenged by those forces pursing greater equality and broader, deeper access to financial services. Pursuing effectiveness, efficiency, and responsiveness is difficult when no one is in charge. Whoever sets the goals determines the measurement of performance.

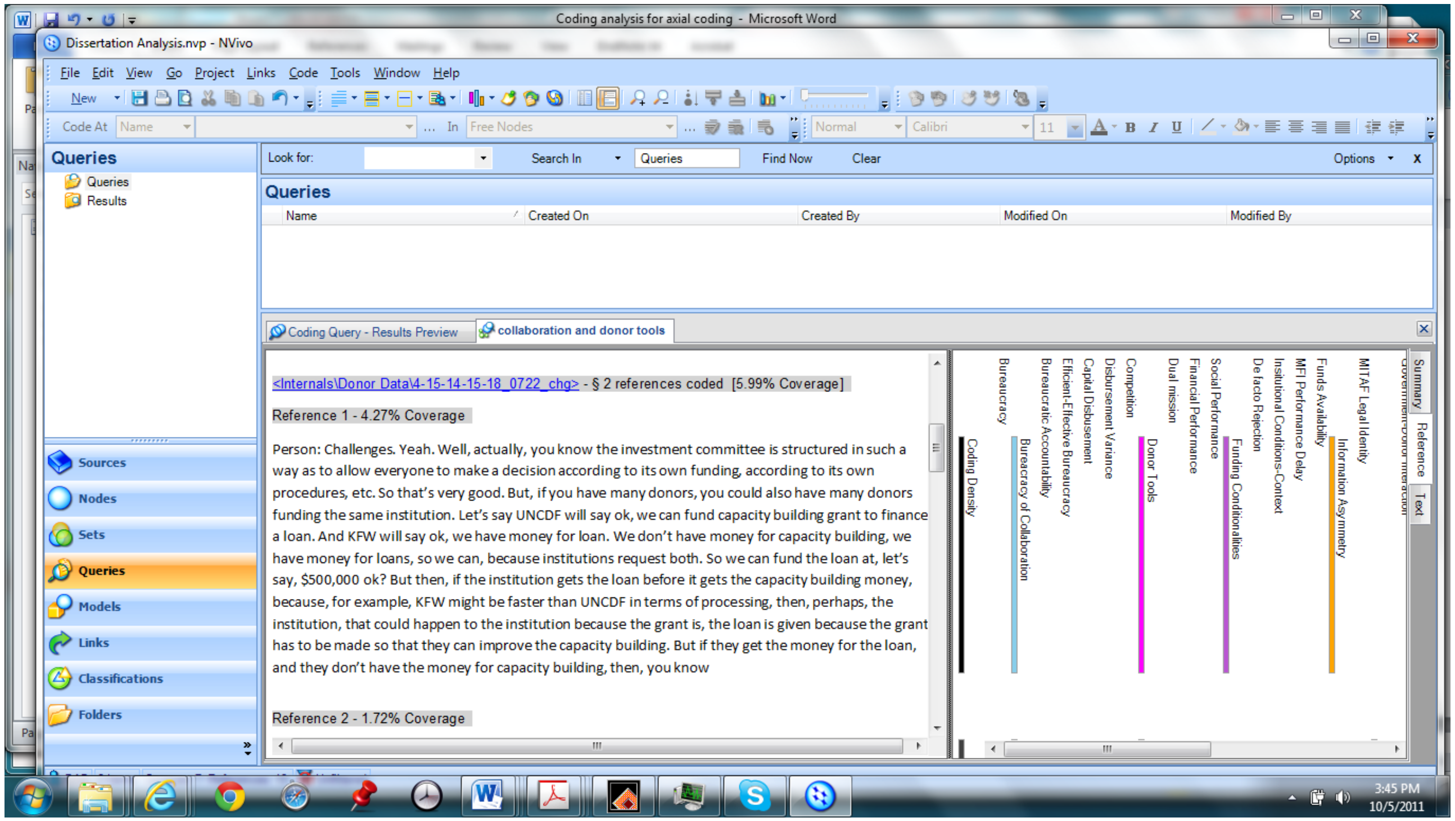
APPENDIX D

NODE SUMMARY REPORT

Begins on following page

Example of axial coding process utilizing NVivo 8

During the axial coding process Query serves to constantly compare code-to-code to view interactions in the capital flow process. In the portion of text viewed below Query extracted all text located in both Collaboration and Donor Tools nodes. Then View option was selected to display stripes for all other nodes where the extracted text was coded. For the specific text below it is particularly noteworthy that the MITAF Legal Identity property node, *Information Asymmetry* (IA), was also coded. In axial coding IA was connected with Collaboration. This supported Collaboration emerging as an axial code. Coding at other nodes supports its contribution to conceptually dense theory.



Definitions:

Sources: Number of different files (e.g., interview, archival document) accessed for this node.
References: Number of different text sections created during fragmentation and attributed to this node.
Words: Number of words in references.
Paragraphs: Number of paragraphs as delineated by line spacing.

Tree Nodes\Bureaucracy of Collaboration — **Tree Node**

Description Property: The characteristic, attribute of Bureaucracy; it defines and gives meaning to Bureaucracy (S and C p. 101, 117). The bureaucracy associated with cooperative efforts of separate legal entities, including organizational processes and culture

Modified On 8/10/2011 10:15 AM **By** DAB

Created On 3/25/2011 10:25 AM **By** DAB

Users 1

Cases 3

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	15	81	5,908	151			
Total	**15**	**81**	**5908**	**151**			**0**

Tree Nodes\Bureaucracy — **Tree Node**

Description Condition: It is the stage where events arise. The why events occur. Looking at process shows how (S and C p. 127). From interviews, the steps and days of communicating and verifying the satisfaction of a conditionality

Created On 3/25/2011 10:25 AM **By** DAB

Modified On 8/9/2011 5:34 PM **By** DAB

Users 1

Cases 2

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	5	17	1,814	41			
Total	**5**	**17**	**1814**	**41**			**0**

Tree Nodes\Bureaucratic Accountability — **Tree Node**

Description Property: The characteristic, attribute of Bureaucracy; it defines and gives meaning to Bureaucracy (S and C p. 101, 117), Bureaucratic processes that involve monitoring and inspection

Created On 3/25/2011 10:25 AM **By** DAB

Modified On 8/10/2011 10:21 AM **By** DAB

Users 1

Cases 3

Type	Sources	References	Words	Paragraphs		Duration	Rows
Document	**15**	**81**	**6,234**	**156**			
Total	**15**	**81**	**6,234**	**156**			

Tree Nodes\Capital Disbursement — Tree Node

Description Outcome/consequence: capital disbursed pursuant to a PBA

Created On 4/1/2011 6:53 AM **By** DAB

Modified On 8/10/2011 10:10 AM **By** DAB

Users 1

Cases 2

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	9	27	1,439	57			
Total	**9**	**27**	**1439**	**57**			**0**

Tree Nodes\Competition — Tree Node

Description A context/action situation-Among commercial banks and among MFI, and among financial intermediaries

Created On 3/25/2011 10:25 AM **By** DAB

Modified On 8/10/2011 10:12 AM **By** DAB

Users 1

Cases 1

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	12	48	3,189	51			
Total	**12**	**48**	**3189**	**51**			**0**

Tree Nodes\De facto Rejection — Tree Node

Description Property: From funder interview, there appears to be linkage to the time it takes to fulfill a condition and the speed with which a disbursement request is processed, disbursement priorities change, it's like a new request. Conditionalities means never having to say "no" to a funding proposal,

Created On 3/25/2011 10:25 AM **By** DAB

Modified On 8/10/2011 10:22 AM **By** DAB

Users 1

Cases 1

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	7	14	1,284	30			
Total	**7**	**14**	**1284**	**30**			**0**

					Region		
Document	15	81	6,234	156			
Total	**15**	**81**	**6234**	**156**			**0**

Tree Nodes\Disbursement Variance — Tree Node

Description Consequences/Outcome: capital not flowing according to the espoused process and/or as expected by parties to the dealer

Created On 3/25/2011 10:25 AM **By** DAB

Modified On 8/10/2011 10:16 AM **By** DAB

Users 1

Cases 3

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	17	92	5,748	138			
Total	**17**	**92**	**5748**	**138**			**0**

Tree Nodes\Donor Tools — Tree Node

Description The Instruments available to the donor

Created On 3/25/2011 10:27 AM **By** DAB

Modified On 8/10/2011 10:12 AM **By** DAB

Users 1

Cases 3

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	11	38	3,454	57			
Total	**11**	**38**	**3454**	**57**			**0**

Tree Nodes\Dual mission — Tree Node

Description Outcome/Consequence: Blending of social outreach mission and financial sustainability

Created On 3/25/2011 10:26 AM **By** DAB

Modified On 8/10/2011 10:09 AM **By** DAB

Users 1

Cases 2

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	11	23	1,957	36			
Total	**11**	**23**	**1957**	**36**			**0**

Tree Nodes\Efficient-Effective Bureaucracy — Tree Node

Description Property: The characteristic, attribute of Bureaucracy; it defines and gives meaning to Bureaucracy (S and C p. 101, 117), Bureaucratic processes that increase impact and reduce cost and time.

Created On 3/28/2011 7:46 AM **By** DAB

Modified On 8/10/2011 10:15 AM **By** DAB

Users 1

Cases 1

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	10	59	3,936	114			
Total	**10**	**59**	**3936**	**114**			**0**

Tree Nodes\Financial Performance — Tree Node

Description Property: The characteristic, attribute of Dual Mission; it defines and gives meaning to Dual Mission (S and C p. 101, 117), Includes Operational Self Sustainability, Financial Self Sustainability

Created On 3/28/2011 7:27 AM **By** DAB

Modified On 8/10/2011 9:25 AM **By** DAB

Users 1

Cases 1

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	11	112	6,369	119			
Total	**11**	**112**	**6369**	**119**			**0**

Tree Nodes\Funding Conditionalities — Tree Node

Description Property: The characteristic, attribute of Disbursement Variance; it defines and gives meaning to Disbursement Variance (S and C p. 101, 117).creates variance in how established, results in variance due to lack of satisfying. The establishing of a condition is an action and work in response to a condition is an action

Created On 3/25/2011 10:25 AM **By** DAB

Modified On 8/10/2011 10:21 AM **By** DAB

Users 1

Cases 3

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	16	82	7,241	145			
Total	**16**	**82**	**7241**	**145**			**0**

Tree Nodes\Funds Availability	Tree Node

Description Condition: intervening, unanticipated...did deal, but took so long priorities change

Created On 3/25/2011 10:55 PM **By** DAB

Modified On 8/10/2011 8:20 AM **By** DAB

Users 1

Cases 0

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	5	8	615	21			
Total	**5**	**8**	**615**	**21**			**0**

Tree Nodes\Government-Donor Interaction	Tree Node

Created On 8/27/2010 1:02 PM **By** DAB

Modified On 8/10/2011 9:44 AM **By** DAB

Users 1

Cases 0

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	5	14	1,411	29			
Total	**5**	**14**	**1411**	**29**			**0**

Tree Nodes\Government-MITAF Interaction	Tree Node

Created On 8/27/2010 2:08 PM **By** DAB

Modified On 8/10/2011 9:49 AM **By** DAB

Users 1

Cases 0

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	8	21	1,628	41			
Total	**8**	**21**	**1628**	**41**			**0**

Tree Nodes\Information Asymmetry	Tree Node

Description Imbalance information needed for action and decisions

Created On 3/25/2011 10:26 AM **By** DAB

Modified On 8/10/2011 9:29 AM **By** DAB

Users 1

Cases 3

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	12	59	4,307	101			
Total	**12**	**59**	**4307**	**101**			**0**

Tree Nodes\Institutional Conditions-Context — **Tree Node**

Description Interviews and Narrative, 09-4Q, factors such as capacity and governance

Created On 3/25/2011 10:25 AM **By** DAB

Modified On 8/10/2011 10:06 AM **By** DAB

Users **1**

Cases **1**

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	13	58	3,859	95			
Total	**13**	**58**	**3859**	**95**			**0**

Tree Nodes\Investment Committee-TSP Interaction — **Tree Node**

Created On 8/27/2010 2:11 PM **By** DAB

Modified On 8/10/2011 10:15 AM **By** DAB

Users **1**

Cases **1**

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	13	49	4,470	103			
Total	**13**	**49**	**4470**	**103**			**0**

Tree Nodes\MFI business — **Tree Node**

Description Action/interaction: Things they do or say, strategic or routine, make loans, collect payments, new products; non-donor, non-MITAF actions

Created On 4/1/2011 6:28 AM **By** DAB

Modified On 8/10/2011 9:48 AM **By** DAB

Users **1**

Cases **4**

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	10	51	3,372	70			
Total	**10**	**51**	**3372**	**70**			**0**

Tree Nodes\MFI Performance Delay — Tree Node

Description Action/Interaction: MFIs operate in a certain way, due to capacity limitations, market constraints, philosophy, that causes delay in satisfying conditions

Created On 3/25/2011 11:04 PM **By** DAB

Modified On 8/10/2011 10:22 AM **By** DAB

Users 1

Cases 2

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	13	30	1,780	40			
Total	**13**	**30**	**1780**	**40**			**0**

Tree Nodes\MFI-Donor Interaction — Tree Node

Created On 8/27/2010 1:45 PM **By** DAB

Modified On 8/10/2011 9:43 AM **By** DAB

Users 1

Cases 2

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	13	39	3,628	92			
Total	**13**	**39**	**3628**	**92**			**0**

Tree Nodes\MFI-Government Interaction — Tree Node

Created On 9/20/2010 3:43 PM **By** DAB

Modified On 8/10/2011 9:48 AM **By** DAB

Users 1

Cases 0

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	7	12	770	21			
Total	**7**	**12**	**770**	**21**			**0**

Tree Nodes\MFI-MITAF interaction — Tree Node

Created On 9/20/2010 3:17 PM **By** DAB

Modified On 8/10/2011 10:21 AM **By** DAB

Users 1

Cases 2

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	12	41	3,974	82			
Total	**12**	**41**	**3974**	**82**			**0**

Tree Nodes\MITAF Legal Identity — Tree Node

Created On 3/28/2011 10:17 AM **By** DAB

Modified On 8/10/2011 10:12 AM **By** DAB

Users 1

Cases 0

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	6	14	1,378	42			
Total	**6**	**14**	**1378**	**42**			**0**

Tree Nodes\Organization Interaction — Tree Node

Description Action/Interaction: Things they do or say, strategic or routine.

Created On 3/25/2011 11:21 PM **By** DAB

Modified On 8/9/2011 6:42 PM **By** DAB

Users 1

Cases 0

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	4	8	516	10			
Total	**4**	**8**	**516**	**10**			**0**

Tree Nodes\PBA delay — Tree Node

Description Action: actions the delay the PBA's completion beyond its expected time

Created On 4/1/2011 6:51 AM **By** DAB

Modified On 8/10/2011 10:17 AM **By** DAB

Users 1

Cases 1

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	8	21	1,132	39			
Total	**8**	**21**	**1132**	**39**			**0**

Tree Nodes\Performance Based Agreement — Tree Node

Description Context: It is what creates the deal, it is the action situation

Created On 3/25/2011 10:27 PM **By** DAB

Modified On 8/10/2011 10:22 AM **By** DAB

Users 1

Cases 1

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	9	42	3,756	108			
Total	**9**	**42**	**3756**	**108**			**0**

Tree Nodes\Post-conflict nation — Tree Node

Description The property of the environment, here it also incorporates the fragile state property. Grouped here is also macroeconomic phenomena

Created On 3/28/2011 10:10 AM **By** DAB

Modified On 8/10/2011 8:34 AM **By** DAB

Users 1

Cases 2

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	11	37	2,730	62			
Total	**11**	**37**	**2730**	**62**			**0**

Tree Nodes\Power G-D — Tree Node

Description Interviews and field notes. The dominance of one funder in IC meetings, North-South issue of TSP, Org autonomy

Created On 3/25/2011 10:27 AM **By** DAB

Modified On 3/29/2011 9:18 AM **By** DAB

Users 1

Cases 1

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	2	3	322	2			
Total	**2**	**3**	**322**	**2**			**0**

Tree Nodes\Power M-A — Tree Node

Description Relationship interactions between MFIs and apex

Created On 3/25/2011 10:27 AM **By** DAB

Modified On 4/27/2011 5:53 AM **By** DAB

Users 1

Cases 3

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	3	10	1,368	21			
Total	**3**	**10**	**1368**	**21**			**0**

Tree Nodes\Power — Tree Node

Description CATEGORY: Interviews and field notes. The dominance of one funder in IC meetings, North-South issue of TSP, Org autonomy, "partner"

Created On 3/25/2011 10:27 AM **By** DAB

Modified On 8/10/2011 9:56 AM **By** DAB

Users 1

Cases 0

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	8	25	2,541	56			
Total	**8**	**25**	**2541**	**56**			**0**

Tree Nodes\Relationship-INGO-Type — Tree Node

Description Action/interaction: How donors and/or apex (TSP) viewed or prefer or not prefer a particular MFI or type of MFI

Created On 3/25/2011 1:27 PM **By** DAB

Modified On 8/10/2011 9:45 AM **By** DAB

Users 1

Cases 1

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	4	5	879	20			
Total	**4**	**5**	**879**	**20**			**0**

Tree Nodes\Resource Dependency — Tree Node

Description Because don't have the resources there is not the wherewithal Dependent on handouts to do what believes needs to be done

Created On 3/25/2011 10:27 AM **By** DAB

Modified On 8/10/2011 10:10 AM **By** DAB

Users 1

Cases 3

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	14	48	3,536	80			
Total	**14**	**48**	**3536**	**80**			**0**

Tree Nodes\Self-Interest — Tree Node

Created On 3/31/2011 6:14 AM **By** DAB

Modified On 8/10/2011 8:16 AM **By** DAB

Users 1

Cases 1

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	11	30	2,254	60			
Total	**11**	**30**	**2254**	**60** .			**0**

Tree Nodes\Social Performance — Tree Node

Description Property: The characteristic, attribute of Dual Mission; it defines and gives meaning to Dual Mission (S and C p. 101, 117), Includes outreach, number of loans, average loan

Created On 3/28/2011 7:25 AM **By** DAB

Modified On 8/10/2011 10:12 AM **By** DAB

Users 1

Cases 2

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	12	90	5,858	105			
Total	**12**	**90**	**5858**	**105**			**0**

Tree Nodes\Voice — Tree Node

Description PROPERTY of Category: The ability to influence the discussion, opportunities and ways of learning (eg branch opening) Interviews and field notes. Cornwall article on participation.

Created On 3/25/2011 10:27 AM **By** DAB

Modified On 8/10/2011 10:08 AM **By** DAB

Users 1

Cases 1

Type	Sources	References	Words	Paragraphs	Region	Duration	Rows
Document	7	20	2,505	31			
Total	**7**	**20**	**2505**	**31**			**0**

APPENDIX E

CRITERIA FOR SELECTIVE CODING

Strauss and Corbin 1998, p. 147

1. It must be central; that is, all other major categories can be related to it
2. It must appear frequently in the data. This means that within all or almost all cases, there are indicators pointing to that concept.
3. The explanation that evolves by relating the categories is logical and consistent. There is no forcing of data
4. The name or phrase used to describe the central category should be sufficiently abstract that it can be used to do research in other substantive areas, leading to the development of a more general theory.
5. As the concept is refined analytically through integration with other concepts, the theory grows in depth and explanatory power.
6. The concept is able to explain variation as well as the main point made by the data; that is, when conditions vary, the explanation still holds, although the way in which a phenomenon is expressed might look somewhat different. One also should be able to explain contradictory or alternative cases in terms of that central idea. (Strauss 1987, p. 36)

APPENDIX F

PROGRAMME SUPPORT DOCUMENT

United Nations Development Programme

Programme of the Government of the Republic of Sierra Leone

Programme Support Document

UNCDF PROJECT NUMBER: SIL/03/C01

PROJECT TITLE: Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone

Source Of Fund (SOF): TRAC, Government, and others

Programme Financing

UNCDF: US$3,000,000
(Including AOS)

Parallel Financing:
€uro3,000,000 KfW
UNDP 2,500,000

ESTIMATED START DATE: April 2004

ESTIMATED END DATE: April 2009

STATEGIC AREAS OF SUPPORT: Development of An Inclusive Sustainable Financial Sector

MANAGEMENT ARRANGEMENT: UNCDF Execution

UNITED NATIONS IMPLEMENTING AGENCY: UNCDF/SUM for some UNDP budget lines

Approved on behalf of:

Government: ______________________ 19/12/03
Konah C. Koroma
Development Secretary
Date

BoSL: ______________________ 22/12/2003
Dr. James Rogers
Governor
Date

UNDP ______________________ 30/12/2003
Alan Doss
Resident Representative
Date

UNCDF: ______________________ 10/02/04
Henriette Keijzers
Executive Secretary a.i.
Date

SIL/03/C01

Government of the Republic of Sierra Leone

United Nations Capital Development Fund

Development of a Sustainable Pro-Poor Financial Sector

in Sierra Leone

(2004 -2009)

Executive Summary

At present the microfinance sector in Sierra Leone is at a nascent stage. It is estimated that the demand for credit for productive purposes ranges between 90,000 and 160,000 customers with a combined loan volume ranging from US$ 24.8 to 43.5 million. Although many operators have adopted a business like approach and are committed to reach profitability and scale, the present supply reaches less than 13,000 customers with a combined loan portfolio of less than US$ 1,000,000. Experience shows that this gap can only be overcome by building robust and professional institutions or bank units that are specialized in providing sustainable financial services to the lower segments of the market. Considerable funding would be needed for building capacity and financing an expansion of the customer base. Measures should be taken to ensure optimal coordination among stakeholders in order to effectively advance the vision and strategy presented in the Government's microfinance policy. If government and donors combine their efforts, it is feasible that within a period of 5 to 7 years, Sierra Leone could move from the start-up to the consolidation phase of building an inclusive financial sector with microfinance as an integrated part of the financial system.

PART I.

A. Situation Analysis[1]

A.1 Country Context

1. The population of Sierra Leone is estimated to be 5.6 million inhabitants, with an estimated 935,800 households. Estimates are that the informal sector accounts for at least two-thirds of the total labor force, and 70% of the urban labor force. Of the total population around 65 percent lives in rural areas. Ten years of war resulted in a decline in social indicators putting Sierra Leone at the bottom of UNDP's Human Development Index. More than 80 percent of the population has an income below the poverty line of $1 per day.

2. There is, however, renewed hope that enduring peace has returned. Disarmament was completed in January 2002, civil authority has been gradually restored throughout the country, Presidential and Parliamentary elections were peacefully held in May 2002, and over 300,000 internally displaced persons and refugees have returned to their places of origin.

3. The improved security situation provided through the support of UNAMSIL has facilitated the resumption of economic activities. Real GDP is estimated to have risen by 6.4 percent in 2001 and by 6.3 percent in 2002. The rate of inflation has fallen sharply from 37 percent in December 1999 to –3.1 percent in 2002. The exchange rate is relatively stable, and interest rates have also declined in line with the fall in inflation.[2]

A.2 Microfinance Sector Development in Sierra Leone

<u>Supply of Microfinance</u>

4. The landscape of microfinance operations in Sierra Leone is comparable to other post conflict situations. Present capacity is basic, outreach is still very limited, while none of the operations are yet sustainable. A shift has been made recently from a relief towards a business like orientation with a focus on sustainability. This shift was accelerated by the microfinance policy recently approved by the Government (see chapter II.B).

5. Of the six commercial banks in Sierra Leone, a few expressed interest in lending to microfinance institutions provided sufficient security is offered. The Sierra Leone Commercial Bank is the only commercial bank that is planning to engage in microfinance by establishing a microfinance unit in June 2003.

6. The two development banks, the National Development Bank (NDB) and the National Cooperative Development Bank (NCDB) are engaged in microfinance. NDB had 1,600 active borrowers in April 2003 but plans to shift to wholesaling to MFIs after its restructuring process. NCDB had 600 active borrowers in April 2003 and plans to transform into a corporate financial institution. The Bank of Sierra Leone (BoSL) has established as pilots two community banks that provide microfinance, and plans two additional pilots.

---

[1] See "Microfinance Sector Development in Sierra Leone, An Assessment", May 2003, www.uncdf.org/sum for a more detailed analysis of country context, supply and demand for microfinance, legal environment, prior assistance, government policy, opportunities and constraints, and stages of sector development.

[2] Government of Sierra Leone, National Micro-Finance Policy, November 9, 2002, p.4.

7. The Social Action and Poverty Alleviation Programme (SAPA) is the microfinance window of National Commission for Social Action (NaCSA), which is a Government programme supported by the AfDB and the World Bank. SAPA's NGO program provides loans to 50 NGOs for the purpose of on-lending to individuals or groups. SAPA has developed strict guidelines that include the terms under which the loans can be on-lent. From its inception the NGO program lent Le 710 million until April 2003 to microfinance NGOs.

8. The combined active clients base of Microfinance NGOs and programs is around 15,000 borrowers with a total loan portfolio outstanding of around US$ 1,000,000. There are around 50 to 60 microfinance NGOs, projects and programs in Sierra Leone. Most of these microfinance operations are small and institutionally weak with an outreach of less than 200 clients. The MFIs at present with the highest outreach include World Hope, ARC, ARD, and PRIMED. They have a client base between 400 and 4,000 clients. These institutions and programs would all require considerable capacity building and capital support to become sustainable MFIs.

9. Sierra Leone has two indigenous financial mechanisms that provide access to credit. Osusu or rotating savings and credit associations (ROSCAs), are common throughout the country. Group members enforce credit discipline and may claim any part of a defaulter's assets. Given the low-income of most members, the amounts mobilized are not sufficient to generate significant funds. Moneylenders are also found throughout the country, with the common terms of borrowing being a 2 for 1 system. Borrowers often come for emergencies, and indebtedness can rapidly build. Repayment is also strongly enforced.

Demand for Microfinance

10. Sierra Leone has a thriving informal sector. Many households earn their livelihood by running a micro or small business. Most of these household have no or limited access to microfinance. If one assumes that 12 percent of the total households could be an active borrower of a loan between Le 100,000 (US$ 40) and Le 10 million (US$ 4,000), the total potential active client base would be 91,000 households with a total active loan portfolio of Le 62 billion (US$ 24.8 million). In case 20 percent of the total households would be an active borrower of a loan between Le 100,000 (US$ 40) and Le 10 million (US$ 4,000), the total potential active client base would be 160,000 households with a total active loan portfolio of Le 109.2 billion. (US$ 43.7 million). Given the present supply and the estimates above, the unmet demand comprises 76,000 to 145,000 customers and a financing gap of US$ 20 to 40 million.

Legal Environment

11. Financial sector reforms were a key component of economic reforms between 1992-97, including the liberalization of interest rates and elimination of directed credits and credit ceilings. The Bank of Sierra Leone Act and the Banking Acts were revised in 2000, and the Other Financial Institutions Act was introduced in 2001.[3]

Prior and Ongoing Assistance to the Microfinance Sector

12. Donor funded support to microfinance has been limited to date. The World Bank and African Development Bank (AfDB) supported the microfinance policy process. AfDB has also, through its support to the National Commission for Social Action (NaCSA), supported the SAPA programme and, is currently discussing continued support. The World Bank has made available potentially up to $6.5 million of additional support to the sector. Various NGO-MFIs have received limited support from few donors. There has been no significant donor support to microfinance as most donor funding has focused on recovery and resettlement.

[3] Government of Sierra Leone, National Microfinance Policy, November 9, 2002, p.5.

A.3 Opportunities and Constraints for Development of Microfinance Sector

Opportunities

13. The potential demand is high: the indicative demand estimates illustrate that there is a large gap between the demand and supply of credit for micro and small business activities. Entrepreneurial activities are wide spread and microfinance has been an inherent part of the Sierra Leone local culture through widespread ROSCA's and traditional money lenders.

14. Poverty alleviation, private sector development, microfinance and employment generation are high priorities for the Government. The Government has recently adopted a national policy on microfinance. This policy provides a framework that is conducive for the development of the microfinance sector and its integration into the commercial financial sector.

15. The legal and regulatory framework is conducive for a microfinance industry to emerge and expand. The Bank of Sierra Leone is supportive of developing an inclusive commercial financial system. In a short period around sixty players have emerged in the field of microfinance. Although operators are still small in size and require additional investments, many expressed a strong commitment to manage their organization as a business with the longer term objective to become independent of subsidies.

Constraints

16. At present, none of the microfinance operators are commercially viable. Virtually all operators use product methodologies developed in other countries that are not yet fully adapted to the market realities of Sierra Leone. International experience shows that the emergence of market leaders that demonstrate significant scale and commercial viability is essential for a rapid expansion of the microfinance sector. These leaders function as role models for peers by having demonstrated that customers at the lower end of the market are bankable. At present such leaders have not yet emerged in Sierra Leone.

17. A major constraint is the lack of funding needed by microfinance operators to professionalize and expand their operations. Only SAPA and a few other donors provide limited funding. Most of these donors have not yet adapted their policies in line with the national policy. Most major donors have concentrated their programs on relief, rehabilitation and reintegration. Microfinance operators need financing for expansion, infrastructure and capacity building in order to be able to reach sustainability. "Capacity building of institutions and individuals in the sector is by far the most pressing and needed intervention given the developmental stage of the sector"[4].

18. Numerous actors note that the market was distorted due to grant and subsidized credit programs from government and donors. The shift from grants to loans has caused confusion for some clients. There is a need to reshift people's perception from charity to self-reliance. The banking infrastructure was also destroyed, causing the need to reconstruct safe deposit services.

19. Despite the limited number of donors, the lack of coordination is perceived as a constraint. Some donors do not adhere to internationally accepted best practices in microfinance by setting interest rate ceilings, providing highly subsidized interest rates and by exclusively targeting customers with predefined common characteristics. The government's microfinance policy is built on the experience that unsustainable microfinance programs distort the market and undermine the emergence of a sustainable microfinance industry. At present

[4] National Policy of the Government of Sierra Leone, page 20

there is no professional and permanent focal unit for microfinance in the Bank of Sierra Leone to ensure inclusive financial sector development, standards and transparency.

20. As the microfinance sector matures, it is important that regulations are formulated that stipulate the prudential and licensing requirements. These regulations would take into account the unique characteristics of microfinance and would allow further integration of the microfinance sector into the commercial and regulated financial sector.

A.4 Host Country Government Policy and Strategy on Microfinance

21. The Government's National Recovery Strategy (2002-03) includes microfinance as one of the four key areas of intervention for restoration of the economy, given that the 'country's large informal economy has the potential to absorb huge numbers of the working population.'[5] The Interim Poverty Reduction Strategy Paper (June 2001) stresses the importance of promoting microenterprises, and the extension of microfinance and banking services within the context of developing the private sector to stimulate recovery and growth.[6]

22. A Government Task Force[7] developed a National Microfinance Policy recently approved by Cabinet. The policy states that the past lack of guidelines has lead to a tendency of 'undermining good initiatives in the sector', and acknowledges that 'the Government will therefore disengage from any direct involvement in the provision of micro-credit'[8]. It is thus necessary to clearly define the country's vision for the sector, and how it could 'be integrated within the mainstream national economy.' The stated vision behind the policy is: "To develop and integrate micro-finance into the broader financial system and facilitate the provision of viable and sustainable micro-finance services to low income Sierra Leoneans in a transparent and accountable manner for meaningful productive activities and thereby contribute to economic growth and reduce poverty."[9]

23. The policy describes the following key principles': 1) Disciplined management; 2) Transparency, with donors, government, clients and public having the right to know status; 3) Reporting and accountability, with regular operational, financial and audit reports; 4) Pricing, with MFIs free to set prices reflecting the prevailing market conditions and their internal costs; 5) Delinquency control, capability for timely and full loan repayment; 6) Appropriate techniques and products, a variety of collateral substitutes and repayment incentives can be used; 7) Gender consideration, enabling the participation of women; 8) Governance, sound structures suitable to the institutional type, and largely free from government and political interference.

24. The strategies to realize these objectives include: 1) Market oriented financial and credit policy conducive for broadening and deepening of micro-financial services for effective and efficient functioning of the financial market; 2) Establishment of a legal framework that promotes increased intermediation; 3) Developing national capacity for sound policy review, programme design, implementation, management, supervision and monitoring; 4) Coordinating activities in the micro-finance sector in order to avoid duplication and over-subscription and enhance fair distribution of micro-finance resources available in country.[10]

---

[5] National Recovery Strategy, Sierra Leone, 2002-2003, p.57.

[6] Interim Poverty Reduction Strategy Paper, June 2001, p.36.

[7] Comprised of members from the Ministry of Development and Economic Planning; Bank of Sierra Leone; Ministry of Finance; SAPA; Sierra Leone Commercial Bank; and Association for Rural Development.

[8] Government of Sierra Leone, National Microfinance Policy, November 9, 2002, p.10. Note, the Ministry of Finance Budget submitted to Parliament end November 2002 excluded a previous budget line for Government micro-credit.

[9] Ibid.

[10] Government of Sierra Leone, National Microfinance Policy, November 9, 2002, p.4.

A.5 Conclusion

25. At present the microfinance sector in Sierra Leone is at a nascent stage. It is estimated that the demand for credit for productive purposes ranges between 90,000 and 160,000 customers with a combined loan volume ranging from US$ 24.8 to 43.5 million. Although many operators have adopted a business like approach and are committed to reach profitability and scale, the present supply reaches less than 13,000 customers with a combined loan portfolio of less than US$ 1,000,000. Experience shows that this gap can only be overcome by building robust and professional institutions or bank units that are specialized in providing sustainable financial services to the lower segments of the market. Considerable funding would be needed for building capacity and financing an expansion of the customer base. Measures should be taken to ensure optimal coordination among stakeholders in order to effectively advance the vision and strategy presented in the Government's microfinance policy. If government and donors combine their efforts, it is feasible that within a period of 5 to 7 years, Sierra Leone could move from the start-up to the consolidation phase of building an inclusive financial sector with microfinance as an integrated part of the financial system.

B. Strategy

B.1 Programme Strategy

26. World leaders have pledged to achieve the Millennium Development Goals (MDGs), including the overarching goal of cutting absolute poverty by half by 2015. UNDP coordinates global and national efforts to reach these Goals.

27. Providing sustainable access to financial services to poor and low-income people is considered an effective tool for poverty reduction. Comprehensive impact studies have demonstrated that: (i) microfinance helps poor households meet basic needs and protect against risks; (ii) the use of financial services by low-income households is associated with improvements in household economic welfare and enterprise stability or growth; (iii) by supporting women's economic participation, microfinance helps to empower women, thus promoting gender-equity and improving household well-being; (iv) for almost all significant impacts, the magnitude of impact is positively related to the length of time that clients have been in the program.[11]

28. The overarching goal of the programme is to contribute to the achievement of the Millennium Development Goals, in specific the goal of cutting absolute poverty by half by 2015, by increasing sustainable access to financial services for poor and low-income people in Sierra Leone. The programme will contribute to this goal by developing a competitive and sustainable inclusive financial sector that provides access to financial services to poor and low-income people in general and micro and small businesses in particular.

29. Experience in other countries demonstrates that major constraints need to be addressed for the microfinance sector to advance rapidly from the start-up phase into the expansion phase. The principal constraint is the absence of professional microfinance institutions that drive the development of the microfinance sector. Experience elsewhere has shown that such leaders function as role models for peers and the public in general by demonstrating that people and enterprises at the lower end of the market are bankable. Providing considerable support to professionalize potential market leaders in Sierra Leone is therefore crucial for the microfinance sector to develop rapidly. In addition, it is considered important that investors in the microfinance sector coordinate their efforts in order to guarantee a smooth and rapid development of the microfinance sector and effective use of public funds.

[11] Clients in Context, The Impacts of Microfinance in Three Countries, Assessing the Impact of Microenterprise Services (AIMS), USAID, January 2002 (www.mip.org).

30. Secondly, it is essential that an enabling environment is shaped to optimally develop the growing sustainability and outreach of the young microfinance industry. For this purpose a microfinance unit will be established in the Bank of Sierra Leone that will act as a focal point to guide the development of an inclusive financial sector. Furthermore, a series of measures will be taken to increase general awareness of sound microfinance principles.

31. The Project will address these issues by concentrating on four mutually reinforcing programme outputs to support the development of a competitive and sustainable inclusive financial sector. The first two outputs are related to the development of the microfinance industry itself while outputs three and four are related to the development of an enabling environment (see Figure 1. Objectives and Outputs)

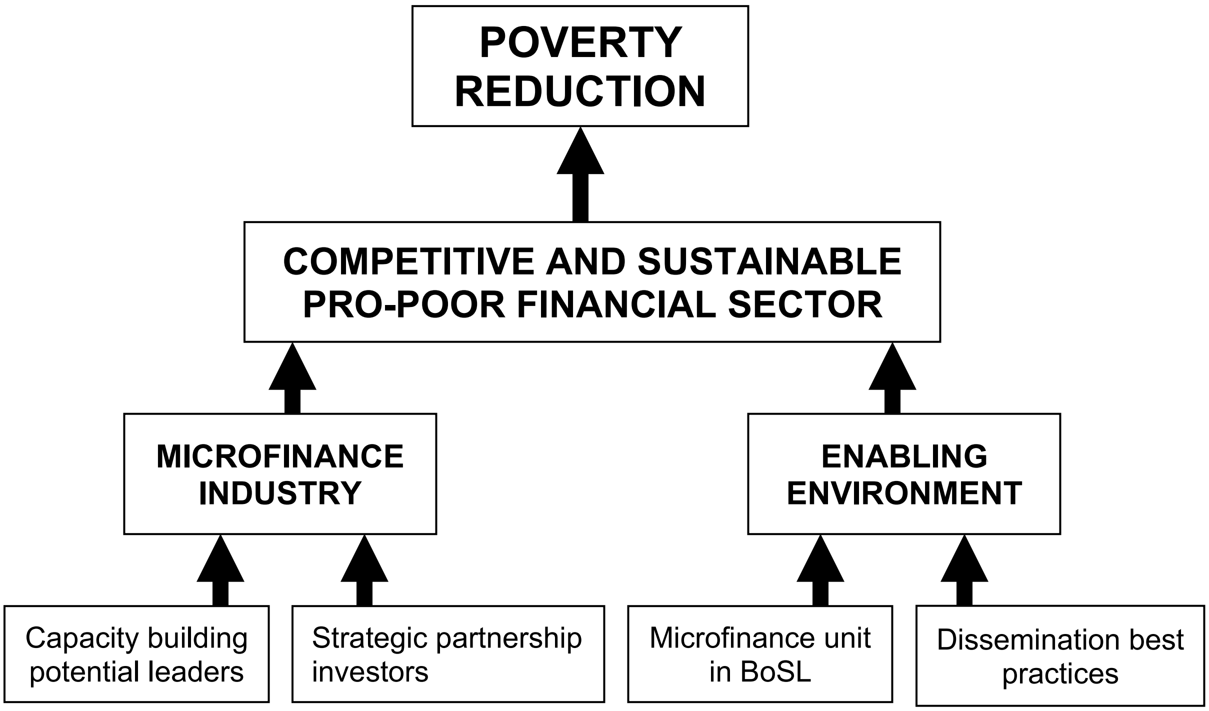
32. Output 1: Potential leaders of the microfinance industry have reached sustainability and have considerably increased their outreach within a competitive environment. The Project will support institutions that have the potential to become future market leaders which includes commercial banks that plan to downscale their operations. Potential candidates will be selected based on an institutional assessment, a realistic business plan and capacity building proposal. Proposals need to be approved by the Project Investment Committee. Approved proposals will result in a performance-based agreement between donors and the institution. The size, nature and timing of support will be defined in the Agreement.

33. Output 2: Strategic partnerships are built with other donors, equity investors and commercial banks in joint support of a sustainable pro-poor financial sector. A Project Investment Committee will be established to approve capacity building proposals of MFIs and to facilitate donor investment in MFIs that are potential market leaders. The Project will be designed to function as an effective and conducive mechanism for donors to channel their investments to MFIs (see part III for details on management arrangements). The project will engage in active mobilization of additional donor funding to further strengthen the microfinance sector

34. Output 3: A professional microfinance unit has been established in the Bank of Sierra Leone (BoSL) to ensure an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system. The microfinance unit in the Bank of Sierra Leone will function as a permanent focal point for the development of a pro-poor financial sector. The project will support the BoSL in the establishment and strengthening of this unit in, among others, the following areas: capacity building of the unit's staff through training and exposure visits to other Central Banks, the establishment of a sector data base, industry standards, transparency criteria and bench marks, sector studies on (potential) constraints and opportunities, advice to policy makers and regulators, information dissemination, development of national capacity in support services to the sector (auditing, accounting, legal, IT) and the shaping of regulatory environment conducive for integrating the microfinance sector into the financial system.

35. Output 4: Sound microfinance principles have been disseminated and are widely accepted and adopted. The Project will take initiatives to create general awareness of "best practices" in microfinance through training via the UNCDF microfinance distance learning training program, fellowships to renowned training institutions, and exposure visits to top-performing MFIs in other countries. With respect to this output, the project will explore opportunities to work closely with the Consultative Group to Assist the Poor (CGAP). CGAP promotes adherence to sound microfinance principles and stresses the importance of aiming at sustainability and outreach.

Figure 1. Objectives and Outputs



Part II.

A. Results and Resources Framework (See Annex I)

Part III.

A. Management Arrangements: Roles and Responsibilities of Project Parties

36. The Bank of Sierra Leone will be the Government counter part of the project. To support the enabling environment, the Bank of Sierra Leone will establish a microfinance unit as a permanent focal point for the development of the microfinance sector (see Annex II for details).The Bank of Sierra Leone will make capable staff, premises and budget available for the microfinance unit. The Bank of Sierra Leone will establish and lead a microfinance sector development working group with representatives of institutions that are supported by the project to periodically review the policy, regulatory and supervisory framework for microfinance, constraints and opportunities that influence the sector and to identify changes needed for the sector to develop as an integrated part of the financial system.

37. UNCDF/SUM will serve as executing agent for its own funds, and will act as the implementing agency for some budget lines of UNDP funds. Other donors wishing to make use of these arrangements would be able to do so, under cost-sharing arrangements.

38. The Project will establish an Investment Committee in line with the Government's Microfinance Policy to coordinate activities in the micro-finance sector in order to avoid duplication and over-subscription. Donors and private investors supporting microfinance institutions will be encouraged to join the Investment Committee, chaired by the Bank of Sierra Leone (BoSL) (see Annex 3 for detailed TOR). A Technical Service Provider (TSP) will provide tailored, on the ground, technical assistance to selected MFIs and the BoSL. In order to recruit the best possible technical expertise, UNCDF/SUM will carry out international competitive bidding for the Technical Service Provider (see Annex 4 for TOR). Both individuals and institutions will be encouraged to apply. If an institution is selected as having the best proposal, they will be contracted under a performance-based contract totalling $2 million over the five (5) years, and the operational budget lines (BLs: 11, 17:02, 17:03, 20, 32, 45, 52, 53) of the UNDP and UNCDF projects will be revised accordingly, compiled into budget line 20 Subcontracts. If an individual is viewed as having the best qualifications to serve as Team Leader, s/he will be contracted with the responsibility to hire the other team members, and manage the $2 million technical assistance budget. In either case, the Technical Service Provider will submit annual work plans and progress reports to the Investment Committee who will supervise their work.

39. The investment committee will receive business plans and funding proposals from commercial banks, MFIs, and other institutions interested in providing sustainable financial services to low-income clients. Criteria for consideration of proposals from MFIs are also contained in Annex III. Technical officers from the Ministry of Finance and the Ministry of Development and Economic Planning (MODEP) shall sit as observers to the Investment Committee.

40. The administration of this Project shall be governed by UNDP rules and procedures as defined in the Programming Manual within the policy context defined by the Executive Board. This project conforms to the provisions of the Standard Basic Assistance Agreement (SBAA) between the Government of the Republic of Sierra Leone and the United Nations Development Programme signed by both parties on 27 December 1977. The host-country implementing agencies shall, for the purpose of the SBAA refer to the Government co-operating agency described in the Agreement.

41. The total initial programme cost is U.S.$8.83 million, of which U.S.$ 2,500,000 is to be provided by UNDP under the current Country Programme. UNCDF's contribution is for $3.0 million. Five percent of UNDP and UNCDF's funds constitutes administrative costs of the UNDP or UNCDF, according to budget lines implemented.

B. Monitoring, Evaluation and Reporting

42. The Investment Committee will provide reporting on an annual basis to the Government's Microfinance Coordinating Committee[12] (previously the Microfinance Task Force) on: 1) Investments made; 2) Results achieved by MFIs based on standard performance and financial indicators; 3) Constraints and opportunities for further developing the sector; 4) Policy changes needed to remove the constraints or seize opportunities. Reports will be posted on UNCDF/SUM's website with links to other programme partners upon request.

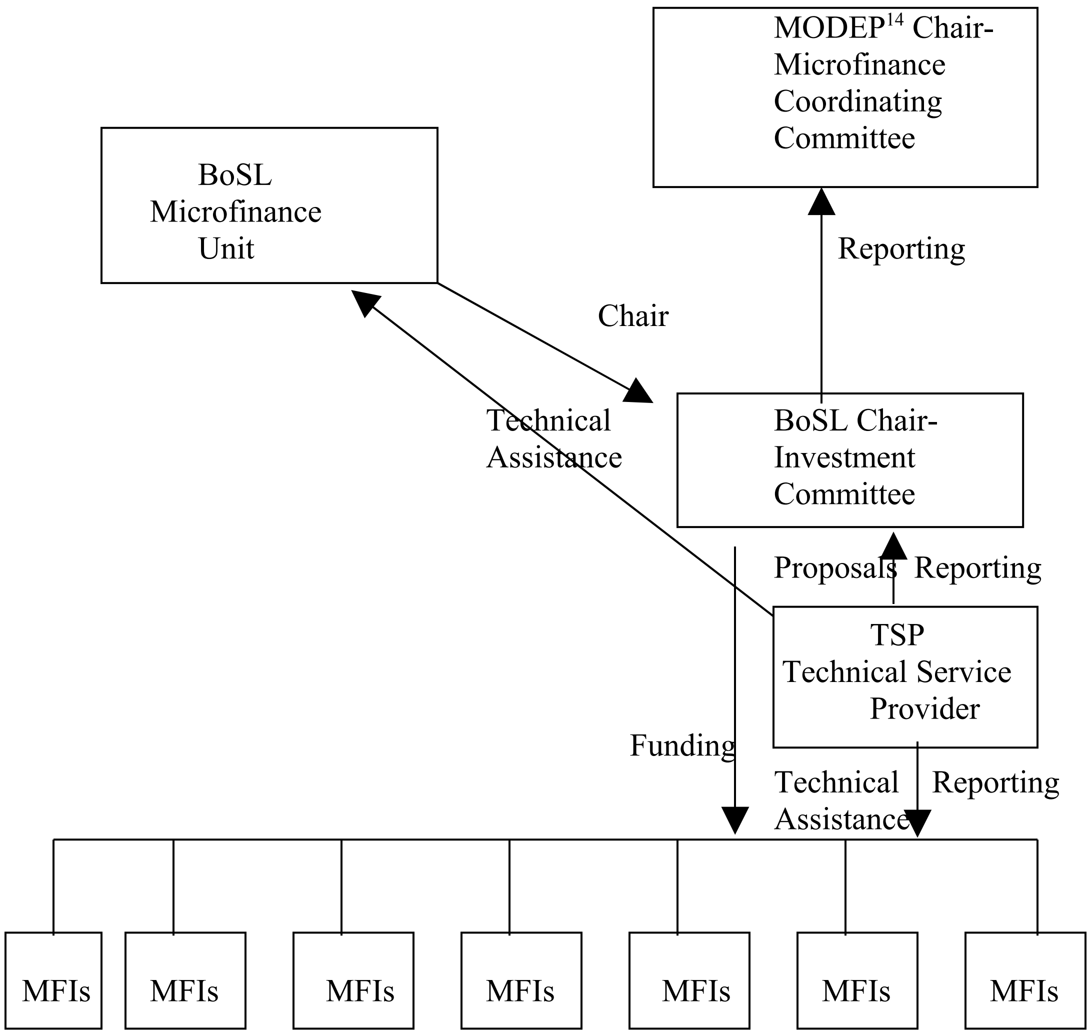
43. The Microfinance Coordinating Committee, the Investment Committee and MFIs supported under the programme will meet at least once a year to review progress achieved; and actively discuss constraints and opportunities to support the development of an inclusive, sustainable financial sector.[13] Recommendations emerging from these discussions will be

[12] See Annex 5 for draft TOR.

[13] These Annual Meetings shall serve the purpose of Tri-Partite Reviews for UNDP, and be co-hosted by MODEP, and UNDP.

referred to the respective bodies with the mandate to review and implement, where possible. Subsequent annual reviews will examine progress achieved in removing constraints and seizing opportunities.

44. The programme is subject to independent, external mid-term and final evaluations, managed by the UNCDF Evaluation Unit, to assess its overall performance, the outputs and outcomes produced against its initial targets, the impact it has brought or would likely to bring about with a focus on their sustainability, its relevance to the national context, and management efficiency. The mid-term evaluation will be forward looking offering lessons learned and recommendations to improve programme performance or national policy during the remaining project period.



[14] See Annex 6 for draft TOR for MODEP's microfinance unit.

PROJECT RESULTS AND RESOURCES FRAMEWORK* **Annex 1a**

Intended Outcome as stated in the Country Results Framework: Contribute to the achievement of the Millennium Development Goals, including the overarching goal of cutting absolute poverty in half by 2015, by increasing sustainable access to financial services for the poor from Sierra Leonean microfinance institutions.			
Outcome indicator as stated in the Country Programme Results and Resources Framework, including baseline and target: Enhanced private sector participation through a combined active client base of the microfinance industry of 80,000 micro and small businesses in year 5 (baseline 13,000 active clients in year 0).			
Applicable Strategic Area of Support (from SRF 2.5) and TTF Service Line (if applicable): Development of a sustainable inclusive financial sector			
Partnership Strategy: Government, Donors, Private Sector, MFIs			
Project title and number: SIL/03/C01			
Intended Outputs	**Output Targets for (years)**	**Indicative Activities**	**Inputs**
1. Potential leaders of the microfinance industry have reached sustainability and have considerably increased their outreach to develop a competitive, sustainable pro-poor financial sector.	1. Increase from baseline in number of active clients of selected MFIs by: - 10,000 active clients by end of year one (12 months). - 40,000 active clients by end of year three (36 months). - 80,000 active clients by end of year five (60 months). 2. At least three MFIs have become fully self-financing by year 5 3. At least three MFIs have adopted international standards in governance, systems and policies by year 5. 4. At least three MFIs have a large branch network that covers a major part of Sierra Leone by year 5.	- Identify and select potential future leaders of the microfinance sector - Provide support in developing capacity building proposals and performance based agreements - Provide capacity building and capital support to selected MFIs - Provide/arrange tailor made training and expert advice to selected MFIs in all areas relevant for them to reach sustainability like: governance, business planning, profit center approach, financial management, human resource management, MIS and MIS software, product methodologies, transformation etc. - Organize exposure programs to top performing MFIs in other countries.	- Technical assistance as per annual workplans, grants and loans as per MFI agreements and project budget. - Fellowships and Other Training as per project budget

PROJECT RESULTS AND RESOURCES FRAMEWORK* **Annex 1b**

Intended Outcome as stated in the Country Results Framework: Contribute to the achievement of the Millennium Development Goals, including the overarching goal of cutting absolute poverty in half by 2015, by increasing sustainable access to financial services for the poor from Sierra Leonean microfinance institutions.			
Outcome indicator as stated in the Country Programme Results and Resources Framework, including baseline and target: Enhanced private sector participation through a combined active client base of the microfinance industry of 80,000 micro and small businesses in year 5 (baseline 13,000 active clients in year 0).			
Applicable Strategic Area of Support (from SRF 2.5) and TTF Service Line (if applicable): Development of a sustainable inclusive financial sector			
Partnership Strategy: Government, Donors, Private Sector (Investors, Commercial Banks, Rating Agencies), MFIs			
Project title and number: SIL/03/C01			
Intended Outputs	**Output Targets for (years)**	**Indicative Activities**	**Inputs**
2. Strategic partnerships are built with other donors and private sector in joint support of a sustainable pro-poor financial sector. .	- Strategic partnerships that enable MFIs access to capital (grants, loans [hard and soft] and commercial equity) are established initially in year 1, then expanded. - Coordination amongst donors/investors from year 1 as donors/investors utilize investment committee framework. - Resources mobilized for MFIs as cost-sharing, parallel financing, or savings mobilization (an additional US$ 10 million cumulative by year 5)	- Establish Investment Committee. - Develop standardized performance agreements, and MFI reporting. - Build partnerships with other donors - Mobilization of resources for Project and/or MFIs directly	- Technical assistance as per annual workplans and project budget.

PROJECT RESULTS AND RESOURCES FRAMEWORK* Annex 1c

Intended Outcome as stated in the Country Results Framework: Contribute to the achievement of the Millennium Development Goals, including the overarching goal of cutting absolute poverty in half by 2015, by increasing sustainable access to financial services for the poor from Sierra Leonean microfinance institutions.

Outcome indicator as stated in the Country Programme Results and Resources Framework, including baseline and target: Enhanced private sector participation through a combined active client base of the microfinance industry of 80,000 micro and small businesses in year 5 (baseline 13,000 active clients in year 0).

Applicable Strategic Area of Support (from SRF 2.5) and TTF Service Line (if applicable): Development of a sustainable inclusive financial sector

Partnership Strategy: Government, Donors, Private Sector, MFIs

Project title and number: SIL/03/C01

Intended Outputs	Output Targets for (years)	Indicative Activities	Inputs
3. A professional microfinance unit in the Bank of Sierra Leone is operational and capable of ensuring an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system	- A Microfinance Unit in BoSL established as a professional focal point for the development of the microfinance industry. - Industry standards developed with MFIs including efficient and transparent information exchange - A microfinance sector data base developed - The support infrastructure for the sector has improved (audit, credit reference bureau) A conducive regulatory and supervisory framework for microfinance has been established. This framework stimulates integration of the microfinance sector into the financial system	- Develop a BoSL microfinance unit TOR and staffing - Establish a microfinance unit - Provide/arrange training to unit's staff (f.i.UNCDF Microfinance Distance Learning Course, Boulder Microfinance Course) - Organize exposure visits to other Central Banks Staff to participate in, and exposure programs. - Support development of industry standards through BoSL working group, efficient and transparent information exchange through Investment Committee - Establish and maintain a microfinance sector data base - Support to BoSL for credit reference. -To assist BoSL to review regulatory framework. Draft guidelines discussed with a Microfinance Working Group lead by BoSL. Conduct a seminar on draft with relevant stakeholders	- Technical assistance as per annual workplans and project budget. - Fellowships and Other Training as per project budget. - Seminars as per project budget. Training to take place in Sierra Leone as much as possible.

PROJECT RESULTS AND RESOURCES FRAMEWORK* **Annex 1d**

Intended Outcome as stated in the Country Results Framework: Contribute to the achievement of the Millennium Development Goals, including the overarching goal of cutting absolute poverty in half by 2015, by increasing sustainable access to financial services for the poor and low-income people from Sierra Leonean microfinance institutions.			
Outcome indicator as stated in the Country Programme Results and Resources Framework, including baseline and target: Enhanced private sector participation through a combined active client base of the microfinance industry of 80,000 micro and small businesses in year 5 (baseline 13,000 active clients in year 0)			
Applicable Strategic Area of Support (from SRF 2.5) and TTF Service Line (if applicable): Development of a sustainable inclusive financial sector			
Partnership Strategy: Government, Donors, Private Sector, MFIs			
Project title and number: SIL/03/C01			
Intended Outputs[15]	**Output Targets for (years)**	**Indicative Activities**	**Inputs**
4. Sound microfinance principles have been disseminated and are widely accepted and adopted.	- MODEP NGO-MFI conducive registration and monitoring process established - Government, donors, consultants and practitioners have access to and utilize best practices in microfinance.	- To assist MODEP to review registration and monitoring framework for NGO-MFIs. - Stakeholders to participate in Distance Learning, Boulder Microfinance Course, and exposure programs. - UNDP staff to enroll in Distance Learning, Boulder, SUM/CGAP and participate in exposure programs. - Dissemination of UNCDF/SUM -------Distance Learning guide to Government and MFIs. Negotiate ----MOU for locally tutored DL course. Conduct a training programs for auditors.	- Technical assistance as per project budget. - Fellowships and exposure as per project budget. - Other Training as per project budget. Training to take place in Sierra Leone as much as possible.

[15] The "Intended Outputs" are based on UNDP's global guidance for the Strategic Results Framework for Microfinance within the Poverty Practice Area.

Total Budget	**(Initial)**	
Technical assistance:	US$ 2,000,000	22.7%
Training fellowship:	US$ 500,000	5.6%
Miscellaneous:	US$ 500,000	5.6%
Grant[16] funding:	US$ 3,000,000	34.1%
Loan[17] funding:	US$ 2,800,000	31.8%
Total:	US$ 8,800,000	100%

[16] Use of grants will be in conformity with microfinance best practices as defined in "Micro and Small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries", Committee of Donor Agencies for Small Enterprise Development, and Donor's Working Group on Financial Sector Development, October 1995 (page 4) that have been adopted by UNDP as policy (see Programming Manual, 6.4.6 Reference Center). Regarding Grants, the Guiding Principles state: "Appropriate Uses of Grants: 1) Institutional development; 2) Capitalization; 3) Operating Losses; and 4) Fixed Assets." See the Guiding Principles for details. The Investment Committee will review and adjust its use of grants and loans, as necessary, to any updates that may become available during the course of the Programme.

[17] Use of loans will be in conformity with microfinance best practices as defined in "Micro and Small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries", Committee of Donor Agencies for Small Enterprise Development, and Donor's Working Group on Financial Sector Development, October 1995 (page 4) that have been adopted by UNDP as policy (see Programming Manual, 6.4.6 Reference Center). Regarding Loans, the Guiding Principles state: "Appropriate Uses of Loans: Donors support through loans is appropriate for lending-based institutions that meet performance standards. However, loan capital from local and commercial sources should be sought as early as possible, even at start-up. Care should be taken to avoid burdening young institutions with foreign exchange risk in loans denominated in foreign currency, unless adequate precautions are taken. Donors are also advised to be careful not to undermine savings mobilization efforts of savings-based institutions, such as savings and credit associations, by making loans available to them below the cost of mobilizing funds locally."

Budget		**UNDP Contribution**					
Imple-menting Agency	BL	**Description**	**2004**	**2005**	**2006**	**2007**	**TOTAL**
UNCDF	11	SUM Backstopping	25,000	25,000	20,000	20,000	**90,000**
UNCDF	15	Evaluation	0	0	40,000	0	**40,000**
UNCDF	16	Mission Costs	24,000	24,000	18,000	18,000	**84,000**
UNDP	17	National Consultant1	18,000	19,000	20,000	21,000	**78,000**
UNCDF	20	Subcontracts	72,000	37,000	37,000	37,000	**183,000**
UNDP	31	Fellowships	100,000	75,000	75,000	63,198	**313,198**
UNDP	32	Other Training	110,000	100,000	75,000	75,000	**360,000**
UNDP	45	Equipment	90,000	0	8,952	0	**98,952**
UNCDF	52	Reporting	8,000	4,000	4,000	4,000	**20,000**
UNDP	53	Sundries	14,000	13,000	13,000	12,000	**52,000**
UNCDF	93	Implementation Fee	6,450	4,500	5,950	3,950	**20,850**
UNDP	71	Micro-Capital Grants	270,000	290,000	310,000	290,000	**1,160,000**
		GRAND TOTAL	**$737,450**	**$591,500**	**$626,902**	**$544,148**	**$2,500,000**

Budget		UNCDF Contribution							
		Description	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**TOTAL**
UNCDF	11	SUM Backstopping	20,000	20,000	20,000	20,000	20,000	7,095	**107,095**
UNCDF	11	Consultant	120,000	153,000	155,000	157,000	160,000	70,000	**815,000**
UNCDF	11	Consultant	70,000	122,000	125,000	54,048			**371,048**
UNCDF	15	Evaluation						40,000	**40,000**
UNCDF	16	Mission Costs	18,000	18,000	18,000	18,000	18,000	12,000	**102,000**
UNCDF	17	National Consultant1	0	0	0	0	22,000	0	**22,000**
UNCDF	17	National Consultant2	0	0	0	0	22,000	-	**22,000**
UNCDF	17	National Consultant3	0	0	0	0	22,000	-	**22,000**
UNCDF	20	Subcontracts	5,000	5,000	5,000	5,000	5,000	5,000	**30,000**
UNCDF	31	Fellowships	-	-	-	-	-	-	**-**
UNCDF	32	Training	0	0	0	0	0	0	**0**
UNCDF	45	Equipment	5,000	0	0	0	0	0	**5,000**
UNCDF	52	Reporting	5,000	2,000	2,000	2,000	2,000	2,000	**15,000**
UNCDF	53	Sundries	1,000	1,000	1,000	1,000	1,000	1,000	**6,000**
UNCDF	71	Capital	300,000	300,000	300,000	300,000	100,000	0	**1,300,000**
UNCDF	93.02	Programme Support Costs	27,200	31,050	31,300	27,852	18,600	6,855	142,857
		TOTAL	**$571,200**	**$652,050**	**$657,300**	**$584,900**	**$390,600**	**143,950**	**$3,000,000**

United Nations

Development Programme

Programme of the Government of the Republic of Sierra Leone

Programme Support Document

UNCDF PROJECT NUMBER: SIL/03/C01

PROJECT TITLE: Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone

Source Of Fund (SOF): TRAC, Government, and others

ESTIMATED START DATE: April 2004

ESTIMATED END DATE: April 2009

STATEGIC AREAS OF SUPPORT: Development of An Inclusive Sustainable Financial Sector

Programme Financing

UNCDF: US$3,000,000 (Including AOS)

Parallel Financing:
∈uro3,000,000 KfW
UNDP 2,500,000

MANAGEMENT ARRANGEMENT: UNCDF Execution

UNITED NATIONS IMPLEMENTING AGENCY: UNCDF/SUM for some UNDP budget lines

Approved on behalf of:

Government: ______________________ ______________
Konah C. Koroma, Development Secretary — Date

BoSL: ______________________ ______________
Dr. James Rogers, Governor — Date

UNDP ______________________ ______________
Alan Doss, Resident Representative — Date

UNCDF: ______________________ ______________
Normand Lauzon, Executive Secretary — Date

Annex 2

Draft Terms of Reference Microfinance Unit Bank of Sierra Leone

The microfinance unit in the National Bank of Sierra Leone will function as a permanent focal point and as coordinator of the development the microfinance sector and its integration into the financial system. The microfinance unit will:

- Support and build consensus on the development of an inclusive financial system;
- Establish a centralized databank on microfinance activities;
- Set standards to ensure transparency;
- Address constraints that hamper the development of an inclusive financial system;
- Draft and monitor policies and regulation in collaboration with major microfinance operators;
- Supervise and monitor regulated microfinance operators;

The Project will support the strengthening this unit in, among others, the following areas:
--staff capacity building,
--the establishment of a sector data base,
--sector studies (constraints and opportunities),
--advise policy makers and regulators,
--information dissemination (including translation),
--development of industry standards, transparency criteria, bench marks.

The project will also, indirectly support this unit by developing national capacity in support services to the sector (auditing, accounting, legal, IT).
The Project will also provide support, in collaboration with the unit, dissemination of information on best practices, joint research studies with local institutions (e.g informal sector, small business sector etc.), support to microfinance networks, training and exchange visits for key stakeholders, workshops and seminars. To the greatest extent possible, to ensure wide access, training will take place in Sierra Leone.

Annex 3

Terms of Reference: Investment Committee

1. Background

In line with the Government's Microfinance Policy to 'Coordinate activities in the micro-finance sector in order to avoid duplication and over-subscription' donors and private investors supporting microfinance institutions will be encouraged to join an Investment Committee.

2. Composition

The Bank of Sierra Leone (BoSL) will serve as (non-voting) Chair of the Investment Committee. Donor/Investors will agree to abide by microfinance best practices[18] in joining the committee. Minimum contribution for Donor/Investors to become a voting member of the committee will initially be set at U.S.$1,000,000. Donors who wish to use the mechanism of the investment committee, but not take a voting seat on the committee may do so through the cost-sharing mechanisms, as may donors with contributions below $1,000,000. The International Technical Service Provider will serve as the Secretariat of the Board. Technical officers from the Ministry of Finance and the Ministry of Development and Economic Planning (MODEP) shall sit as observers to the Investment Committee. Their role as observers shall be limited to: 1) advising the committee if any potential investment is not in line with government policy, and 2) reporting back to their respective ministries on progress in implementing the government's policy. The technical officers will have received training in microfinance.

3. Rationale

In order to support the development of a competitive, sustainable inclusive financial sector, the Investment Committee will provide a framework where donors can:

- Receive business plans and funding proposals;
- Jointly review potential investments;
- Complement relative strengths and weaknesses (provision of only technical assistance, grants, loans or equity) in order to tailor investment packages to the institution.
- Utilize standard reporting and performance based contracts with MFIs;
- Review individual investments within the context of the Government's policy of building a pro-poor, sustainable financial sector;
- Jointly supervise the technical assistance provided to participating MFIs;
- Jointly carry out needed technical reviews, evaluations, audits, field monitoring visits, etc. within a commonly (scheduled) agreed time period;
- Jointly review progress in building the enabling environment for sustainable microfinance.

This arrangement will also minimize transaction costs to MFIs seeking funding, and the Technical Service Provider.

4. Criteria for Applications from MFIs

[18] Best-practices in microfinance are reflected in the "Donor Guidelines for Selecting Financial Intermediaries", and CGAP Focus Notes, Technical Papers and other publications.

Proposals may be made from start-ups, institutions currently operating in the country, or those outside, wishing to start-up operations.

In line with the Government's microfinance policy, the criteria for selecting investments will include the following:

- Disciplined management;
- Transparency, with donors, government, clients and public having the right to know status;
- Reporting and accountability, with regular operational, financial and audit reports;
- Pricing, with MFIs free to set prices reflecting the prevailing market conditions and their internal costs;
- Delinquency control, capability for timely and full loan repayment;
- Appropriate techniques and products, a variety of collateral substitutes and repayment incentives can be used;
- Gender consideration, enabling the participation of women;
- Governance, sound structures suitable to the institutional type, and largely free from government and political interference.

In order to complement the assistance provided by SAPA to young, emerging MFIs, the minimum criteria for consideration by the committee will initially[19] include:

- 500 active clients;
- In existence for at least one year;
- Microfinance as the sole focus of its services;
- Financial self-sufficiency as a stated goal within 5-7 years
- Plans for a major but realistic expansion of the client base

In addition to the criteria noted above, those institutions making proposals from outside to enter the Sierra Leonean market will provide background on their track record in other countries. This information will include standard outreach and performance, and financial reporting disaggregated by institution per country; and also includes the total funding received per institution to achieve those results (**see Annex 3b**). This information will assist the investment committee to make investment decisions on a cost-effective basis, and assess proposed targets in light of past achievements.

5. Technical Support for Preparing Business Plans, Proposal Review, and Funding Requirement Projections

The Investment Committee will be responsible for approving the Technical Service Providers (TSP) long-term and annual workplans, progress reports, and payments under the TSPs performance based contract. UNCDF/SUM will contract the TSP. The TSP's responsibilities will include (see **Annex 4** for full TOR):

- Assist indigenous institutions in preparing business plans;
- Carry out Institutional Appraisals,
- Provide technical review of funding proposals to Investment Committee;
- Secretariat to the Investment Committee.
- Annually, prepare multi-year projections estimating country demand and supply for microfinance services; including funding needs (loans, grants, TA, equity) of MFIs to close this gap. Prepare analysis of options for Investment Committee consideration to catalyze development of the sector and close the gap in a reasonable timeframe.

[19] The Investment Committee will not review applications for start-ups until after its first meeting.

Based on funding needs, develop strategies to mobilize additional resources; or limit further funding placed under Investment Committee management.

6. Process for Reviewing Investment Proposals

The Investment Committee will meet at least twice a year in Sierra Leone. Participation shall be mandatory for at least one meeting per year, while participation in other meetings may be facilitated via telephone/TV-conferences. Funding proposals will be circulated six weeks in advance of meetings. The Secretariat (TSP) will prepare and circulate technical analysis of all proposals to all Investment Committee members at least four weeks in advance of meetings. The Secretariat (TSP) will consult in advance with donors/investors on potential interest in funding a proposal. For simplification, the goal will be that not more than three (3) signatories per contract with an MFI for a proposal under consideration. Funds placed by donors under UNCDF/SUM management shall be considered as one signatory.

Decisions will be made on a commercial basis, and not be subject to political or disbursement pressures. A funding decision will be taken by consensus. Donor/investors will discuss and vote on any proposal, with each voting member of the Investment Committee having one vote. Proposals not approved but receiving one or more 'yes' votes, can be revised and resubmitted. Proposals that are deemed to be a violation of the Government's microfinance policy will be so advised by the Government chair, and requested not to proceed without amendment. These overall arrangements are intended to strengthen the implementation of the Government's Microfinance Policy by ensuring donor coordination, and that weak investments do not undermine the sector.

7. Harmonization of Performance Based Agreements and Reporting:

Donor/Investors participating in the Investment Committee agree to utilize harmonized:

1) Performance based agreements, with key indicators (Outreach: number of active clients; Portfolio quality: PAR @30 days; Profitability/Sustainability: Adjusted Return on Assets AROA) for minimum performance standards; and
2) Reporting requirements, using standard terms and definitions as developed by the Consultative Group to Assist the Poor (CGAP).

8. Execution/Implementation Arrangements:

UNCDF/SUM will serve as executing agent for its own funds, and implementing agent for some UNDP budget lines. Other donors are encouraged to cost-share through UNCDF/SUM in order to 1) minimize disbursement pressure; 2) harmonize reporting; 3) reduce administrative costs; and 4) expedite payments and implementation.

The project will establish a forex, interest-bearing main account with sub-accounts for each MFI or programme component. The Technical Service Provider and CEO of each MFI supported will serve as co-signatories of the respective sub-accounts. Donor/Investors will ensure that either: 1] investments approved by the Investment Committee can be paid within two (2) weeks of approval; or 2] that a certain percentage of committed funds (i.e. concretely committed via contracts for specific projects) is kept in the main account. It will be replenished upon proof that the previous tranche has been adequately used. Donor funds will be expended on a pro-rata basis (calculated according to the percentage of funds accepted under management) based on the payments approved at each meeting. Arrangements will be made for external auditing of the use of funds on a yearly basis by an independent auditing firm who will report to the Investment Committee.

Donors will have the right to cease support to an MFI, programme component or the programme if deemed necessary (non-fulfilment of performance criteria, misappropriation of funds). The decision should be discussed in the Investment Committee, or between the relevant donors in the case of support to a specific MFI.

If needed, the Investment Committee will review these Terms of Reference to adjust them to changing realities and to ensure smooth implementation arrangements.

9. Linkages to Government Policy Review:

The Bank of Sierra Leone will establish a working group on Microfinance Policy and Regulatory Framework that will include a representative of MFIs that have received funding via the Investment Committee. The working group will be lead by the microfinance unit of the BoSL. The working group will periodically review the policy, regulatory and supervisory framework for microfinance and identify changes needed for the sector to develop as an integrated part of the financial system. The working group will liaise with the Ministry of Development and Economic Planning (MODEP) to ensure complementarity with the NGO registration process for NGO-MFIs.

The Investment Committee will provide reporting on an annual basis to the Government's Microfinance Coordinating Committee (previously Microfinance Task Force on: 1) Investments made; 2) Results achieved by MFIs based on standard performance and financial indicators; 3) Constraints and opportunities for further developing the sector; 4) Policy changes needed to remove the constraints or seize opportunities. These reports will be posted on the UNCDF/SUM website with links to programme partners, based on request. UNCDF/SUM's webpage will list donor/investor contributions by value of funds pledged/disbursed (in U.S.$).

The Microfinance Coordinating Committee, the Investment Committee, and MFIs supported under the programme will meet at least once a year to review progress achieved; and actively discuss constraints and opportunities to support the development of a pro-poor, sustainable financial sector. Recommendations emerging from these discussions will be referred to the respective government bodies with the mandate to review and implement, where possible. Subsequent annual reviews will examine progress achieved in removing constraints and seizing opportunities. The timing of these meetings will be organized to coincide with Investment Committee meetings when Donor/Investor representatives may be present in the country.

As the sector matures, the Investment Committee will review the need for continued grant, donor subsidy to the sector, and make decisions regarding whether additional funds should be placed under its management accordingly. The Ministry of Development and Planning will be advised of this recommendation for its consideration and communication to donors active in or considering funding microfinance in Sierra Leone. Once the sector is fully established on a commercial basis, the Government may wish to advise donors of pressing needs in other sectors (health, education) that require grant funding in order to achieve the Millennium Development Goals.

Annex 3: (continued)

Information to be included in funding proposals:

Institution (name and locally registered institutional form):
Mission Statement:
Brief history:
Governance: Executive Director/CEO, Board or Directors, Names and background:
Organigram:
Ownership Structure: Current (Percent shares by stakeholder), and if change anticipated, dates and process for change
Systems and Manuals:
Audited Income Statements and balance sheets:

Start Date:
Current and Proposed Areas of Operation:
Products and Terms:

Current and Proposed Annual targets over period of requested support:
--Number of active clients:
--PAR @ 30 days:
--Value of Loans Outstanding:
--Average Loan Size:
--Adjusted return on assets (AROA):

Funding Requested (Grants and Soft-loans):
Proposed Budget allocation (by category and year):

Other Funding Available:
Grants (amount and source):
Commercial Loans (amount and source):
Equity (amount and source):

Annex 3 B:
Information for International MFIs submitting funding proposals to include in their submission:

For all currently active programmes:
Country:
Institution (name and locally registered institutional form):
Start Date:
Number of active clients:
PAR @ 30 days:
Value of Loans Outstanding:
Average Loan Size:
Adjusted return on assets (AROA):
Grants received (amount and source):
Soft-loans (amount and source):
Commercial Loans (amount and source):
Equity (amount and source):

Terms of Reference **Annex 4**
International Technical Service Provider (TSP)
Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone

Background:
At present the microfinance sector in Sierra Leone is at a nascent stage. It is estimated that the demand for credit for productive purposes ranges between 90,000 and 160,000 customers with a combined loan volume ranging from US$ 24.8 to 43.5 million. Although many operators have adopted a business like approach and are committed to reach profitability and scale, the present supply reaches less than 13,000 customers with a combined loan portfolio of less than US$ 1,000,000. Experience shows that this gap can only be overcome by building robust and professional institutions or bank units that are specialized in providing sustainable financial services to the lower segments of the market. Considerable funding would be needed for building capacity and financing an expansion of the customer base. Measures should be taken to ensure optimal coordination among stakeholders in order to effectively advance the vision and strategy presented in the Government's microfinance policy. If government and donors combine their efforts, it is feasible that within a period of 5 to 7 years, Sierra Leone could move from the start-up to the consolidation phase of building an inclusive financial sector with microfinance as an integrated part of the financial system. KfW, UNCDF/SUM and UNDP plan to launch an initial U.S.$8.8 million, programme to support the development of the sector. Two (U.S.$2M) million of this amount would be available to cover costs related to providing technical assistance.

Detailed Terms of Reference:
Expected Results:
Technical Service Providers (TSPs) will have overall responsibility for managing the programme of assistance to ensure that the results specified in Programme document are produced. These results include:

- Potential leaders of the microfinance industry have reached sustainability and have considerably increased their outreach within a competitive environment. From a baseline of 13,000 active clients, increase to 93,000 active clients by end of 2008.
- Strategic partnerships are built with other donors, equity investors and commercial banks in joint support of a sustainable inclusive financial sector.
- A professional microfinance unit has been established in the Bank of Sierra Leone (BoSL) to ensure an optimal enabling environment for the development of the microfinance industry and its eventual integration into the financial system.
- Sound microfinance principles have been disseminated and are widely accepted and adopted.

TSPs will accomplish these results through a range of the following activities:

Work Planning and Managing Technical Assistance Team:

1. Develop a five year and detailed annual workplans for Investment Committee approval. The workplan should cover all areas noted below, and clearly define the responsibilities of international, national staff and all proposed sub-contracting arrangements;

2. Identify and select international and national staff, and draft necessary terms of reference. The national staff will be an integral partner in the provision of technical services;

MFI identification, appraisal, business plan preparation, and investment proposals:

3. Identify potential microfinance institutions (MFIs) for investment, based on capacities and potential to providing microfinance services in an efficient and financially viable manner;

4. Assist MFIs to develop solid business plans that could serve as the basis for programme investment, and identify an appropriate blend of grants, loans, equity and technical assistance for MFIs to meet performance targets;

5. In the period prior to the first Investment Committee meeting, propose to UNCDF/SUM micro-capital grants ($10,000 to $150,000) for MFIs that the TSP would propose for investment, and who need interim funding prior to Investment Committee review and approval.

Serve as Secretariat to the Investment Committee:

6. Serve as secretariat to Investment Committee, ensuring all required documentation is available to facilitate decision-making, including performance-based agreements with MFIs.

7. Liaise with Investment Committee members to determine interest in funding specific proposals;

8. Propose subsequent tranches from the Investment Committee for participating organizations that meet performance goals;

9. Annually, prepare multi-year projections estimating country demand and supply for microfinance services; including funding needs (loans, grants, technical assistance, equity) of MFIs to close this gap. Prepare analysis of options for Investment Committee consideration to catalyze development of the sector and close the gap in a reasonable timeframe. Based on funding needs, develop strategies to mobilize additional resources; or limit further funding placed under Investment Committee management.

Tailored Technical Assistance to MFIs Selected for Investment:

10. Develop and provide, in consultation with each participating organization, a tailored training programme, and technical assistance plan;

11. Ensure MFIs have a MIS that can produce on-time information needed for MFI management, as well as meet programme reporting requirements. TSPs are required to verify participating MFIs quarterly reports to the Investment Committee.

12. Advise on the strengthening of the board of directors of MFIs, and options for institutional form/legal structure;

13. Organize exchange and exposure visits between participating MFIs and lead MFIs in other countries.

Technical Advice to Bank of Sierra Leone (BoSL):

14. Assess needs and identify in consultation with BoSL staff a knowledge building agenda, including exposure visits to other Central Banks with potential model frameworks for regulation and supervision of microfinance.

15. Serve as a technical advisor to the Bank of Sierra Leone (Central Bank) in developing the supervisory and regulatory framework for microfinance.

16. Carry out studies of potential constraints that could hinder the development of an inclusive financial sector, with microfinance as an integral part of the financial system. Ensure policy actions required are clearly identified for Government of Sierra Leone review and action, as needed. Monitor implementation of follow-up actions.

17. Support development of supportive infrastructure (audit, credit reference bureau).

Liaison, Dissemination of Best Practices, Reporting and Resource Mobilization:

18. Assist the Ministry of Development and Economic Planning (MODEP) in establishing a registration and reporting process for non-regulated NGO-MFIs.

19. Liaise with all donors/investors active in Sierra Leone.

20. Organize general trainings to disseminate information on best-practice microfinance, in collaboration with CGAP where possible.

21. Study potential linkages between financial sector institutions.

22. Liaise with SAPA and other actors in microfinance;

23. Prepare Annual Reporting on results achieved for the Government's Microfinance Coordinating Committee and liaise with the Committee on relevant issues.

Programme Administration:

24. Establish a local dollar, interest bearing account with sub-accounts for each MFI approved for investment. Serve as co-signatory to each sub-account. Advise investment committee when replenishment of account is required to meet planned and approved expenditures.

25. Facilitate tendering for procurement of goods or services of significant value.

26. Facilitate annual external audit of programme resources by TSP and MFIs, and annual audit of MFIs (balance sheets, income statements).

Annex 5

Draft Terms of Reference Microfinance Coordinating Committee (MCC)

- To guide and oversee further development of the policy and its implementation;
- To ensure that stakeholder's carryout their roles and responsibilities as outlined in the policy;
- To provide technical advice to Government on microfinance;
- To undertake research on microfinance related issues, especially on constraints to the sector's development, in close collaboration with the University of Sierra Leone and other agencies or research institutions;
- Annually review progress reports of the Programme for Development of a Sustainable Pro-Poor Financial Sector, together with members of programme's Investment Committee, and participating MFIs;
- Identify constraints and seize opportunities to support the development of an inclusive, sustainable financial sector. Recommendations will be referred to the respective bodies with the mandate to review and implement;
- Promote transparency of all donor programmes and microfinance institutions. The microfinance unit's of both the Bank of Sierra Leone and MODEP will report to the NMCC based on the information received from microfinance providers on a yearly basis. The Committee will publicize its findings on a regular basis;
- To perform any other task that may be assigned to the Committee.

Annex 6

Draft TOR Microfinance Unit within the Ministry of Development and Planning (MODEP):

- To register, monitor and annually review for renewal all NGO MFI's operating in Sierra Leone;
- To ensure that all NGO MFIs operate in accordance with the National Microfinance Policy;
- To sensitise stakeholders and the nations on the National Microfinance Policy;
- To guide potential MFIs on the operations of the microfinance industry;
- To mobilize resources and encourage potential donors or investors to join the Government chaired Investment Committee of the Programme for Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone;
- To inform the Government on the performance of the microfinance industry;
- To advise the Government on any aspects of the policy that require modification as the industry develops;
- To monitor geographical distribution of NGO MFIs, and in collaboration with the Bank of Sierra Leone (BoSL), annually map the distribution of financial services in the country;
- To provide NGO MFIs information on application procedures for the Programme for Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone;
- To serve as Secretariat to the Microfinance Coordinating Committee (see Annex 5);
- To facilitate the development of capacity required for the further enhancement of the industry in both the public and private sector.

APPENDIX G

INVESTMENT COMMITTEE NOTIFICATION DOCUMENTS (TEMPLATES)

Dear ______________:

We are pleased to inform you that the MITAF Investment Committee decided to approve your funding request for the amount of ________________. The term of the grant will be ______ and the following conditions apply:

a.

b.

c.

d.

Please submit a letter of acceptance or rejection to the MITAF office at 9A Wilberforce Loop, Freetown or through email to <cfeinberg@esglobal.com>. We thank you for application and commitment to poverty reduction in Sierra Leone.

Sincerely,

[Name]

MITAF Chief of Party

LOAN APPROVAL FORM

I. MFI: ____________________________________

☐ Approved

Conditions:

i.

ii.

iii.

iv.

v.

vi.

Amount: _________________ Duration: _______________

☐ Rejected

Reasons:

i.

ii.

iii.

Approved By:

UNDP:

Date

UNCDF: ______________________________ ____________________

Date

KfW:

Date

APPENDIX H

CORDAID MITAF TERMS OF AGREEMENT AND SAMPLE LOAN CONDITIONS

Documents begin on the following page.

Cordaid
Memisa·Mensen in Nood·Vastenaktie

the world belongs to everyone

TERMS OF AGREEMENT
Projectnr. 147/10062
Date: 17/11/2005

Cordaid expresses its intention to make available loan capital to the amount of € 600,000 to selected Micro Finance Institutes in Sierra Leone through the Microfinance Investment and Technical Assistance Facility. This funding is based on the assumptions given in the project proposal 'Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone' and other documents presented to Cordaid and registered by Cordaid under project number 147/10062.

The investment is subject to the following terms:

Proposed starting date:	01/11/2005
Amount contract:	€ 600,000
Contract period:	November 2005 – April 2009
Purpose of loan capital:	Investment in loan portfolio of small MFIs and small community banks and Finance Salone
Preferred market segment	Small MFIs and small community banks, in first instance the four institutes (CEDA, KENDDRA, Mattru Community Bank and Segbwema Community Bank) that were recommended by our consultant in the mission report 'Identification of potential partners within the framework of CORDAID's Access to Markets programming in Sierra Leone'.
General conditions:	• Part of Cordaid funding will be earmarked for Finance Salone • Minimum loan size per institute is € 50,000 • Cordaid prefers to complement its loan funding with technical assistance and/or grant funding to the same institute • Cordaid prefers to use the standard MITAF contracts (possibly adapted to certain Cordaid reporting regulations) • MFIs are requested to include in the application format the following cross-cutting themes: gender and HIV/AIDS
Decision making process	Cordaid wants to have the right of veto for its own investments in selected MFIs or community banks, meaning that no other members of the Investment Committee could force Cordaid - against its will - to invest in a specific MFI or community bank.

If this proposal is not formalized into an Agreement or Memorandum of Understanding within two months, its validity expires on that date.

pds/lcr Cordaid
Afdeling Financieringsprogramma
IN: 17 FEB 2006
Nr.: 67 147/10062
Doss.:
Aan: mko/wto

Initials Cordaid: Initials orgaisation:

P.O. Box 16440
2500 BK The Hague
The Netherlands
Lutherse Burgwal 10
tel. +31 70 3136 300
fax +31 70 3136 301
cordaid@cordaid.nl
www.cordaid.com

MITAF

Conditions:

Total Amount Recommended for Approval:

$200,000 grant to be disbursed in two tranches

Before the first $100,000 tranche of the grant is released, [redacted] must complete the following:

- Provide detailed budget of fixed asset purchases and operating costs to be covered by grant.
- Determine specific locations for branch expansion using valid market research data.
- Begin the process of recruiting an Operations Manager, Finance Manager and MIS Manager.

Before the second $100,000 tranche of the grant is released, [redacted] must complete the following:

- Maintain PAR_{30} at 5% or less.
- Maintain an average loan loss rate at 3% or less.
- Score no higher than 40 points from the MITAF due diligence exercise.
- Reach adjusted client growth figures
- Recruit an Operations Manager, Finance Manager, and MIS Manager
- Report to the MIX Market

The loan of $350,000 loan to be disbursed in two tranches and loan terms to be negotiated with the donor providing the loan funds.

Before the first $175,000 tranche of the loan is released, [redacted] must meet the following conditions:

- Maintain PaR30 at 5% or less.
- Maintain an average loan loss rate at 3% or less
- Provide external audit report for financial year 2008.
- Shareholders must pay at least 50% of their shares.

Before the second $175,000 tranche of the loan is released, [redacted] must meet the following conditions:

- Maintain PaR30 at 5% or less.
- Maintain an average loan loss rate at 3% or less.
- Increase OSS to 100% or higher.
- Increase FSS to 100% or higher.
- Reach adjusted client growth figures.
- Be up-to-date with payments of interest installments on the first tranche of the loan.
- Have recruited an Operations Manager to oversee credit operations.
- Report to the MIX Market

APPENDIX I

DESCRIPTIVE AND INFERENTIAL STATISTICS

This investigation aimed to observe numerous capital investment deals in order to capture high variety in linkages between organizational behavior and capital volatility. Capital investment deals were viewed in numerous contexts, such as performance based agreements. Another view combined the MFI context with the year context to observe a variety in linkages between organizational behavior and capital volatility. The four MFIs with the highest capital investment monetary amounts received commitments representing approximately 50% of all capital amounts (grants and loans) invested by MITAF, totaling approximately $4.7 million. These four MFI institutions represent 25% of institutions that received capital commitments from MITAF, and 28% of the capital investment deals. In contrast, the four MFIs interviewed received commitments representing 31.8% of all capital amounts invested by MITAF, but 42.7% of all capital investment deals. This investigation's focus on observing more deals to capture more variety was better served by the interview sample than it would have been by focusing on MFIs receiving commitments for the most capital. Several statistical procedures were performed that shape an MFI context linked with a context distinguished by years. When looking at the three years containing most capital investment deals, MFIs that received capital commitments in 2006 and 2008 significantly differed in their percentage of all MITAF capital investment deals.

The statistical analysis focuses on capital investment deals in the context of MFIs, as opposed to donor-investors. The perceptions and beliefs of MFI leaders were captured through interviews with organization representatives; however, observing deal activity by year aids ascertaining the significance of empirical events. As such, it is helpful to understand the characteristics of capital investment deals in a context of MFIs most experienced with deals.

Capital investment deals were decided at Investment Committee (IC) meetings, which were also intended to be used for disbursement decisions. The IC typically met twice a year. Detailed information was not consistently available for IC meetings, but substantial data was available by year. Below are descriptive statistics and exploratory analysis to provide greater insight to the significance of MFIs to understanding capital investment deals.

Table of Capital Investment Types-By Year*
Percent of All MITAF MFIs
N=16 (100%)

INVESTMENT TYPE	Pre-2004	2004	2005	2006	2008	2009
Grants and Loans	0	6.3%**	0%	12.5%	37.5%	50%
Grants and No Loans	31.3%	18.8%	50%	43.8%	25%	0
Loans, no Grants	0	0	0	0	0	0
No Loans, No Grants	68.8%	75%	50%	43.8%	37.5%	50%

*2007 there were no capital investment deals
** Equals one MFI

The table above provides descriptive statistics on approved deals, by type of capital deal, by year. Given loan eligibility standards for financial performance were higher than for grants, MFI loan activity later in MITAF follows reason (2006, 2008, 2009); however, it was interesting investment packages did not include loans without grants. This is further support for the cross-connectedness of deals (e.g., grant capital for capacity building, loan capital for customer loan funding). A key objective in MFI capacity building was to develop MFI sector leading institutions as models. MIFs showing the most promise would be expected to receive the most deals. The table below provides descriptive statistics on approved deals (grants and loans), by year, and MFI s selected and not selected for interviews. The years selected for the two-way analyses of variance had the highest number of capital investment deals of all the years in the MITAF project. Viewing those capital investments through the MFIs that received the capital investment commitments in each year provides insight on their collective experience, as reflected in the average percent of all MITAF deals.

TABLE OF DESCRIPTIVE STATISTICS OF APPROVED DEALS
Selected Years and Interviewed/Not-Interviewed Groups

DESCRIPTIVES	2006	2008	2009	Not-Interviewed	Interviewed
No. of MFIs with Approved Deals	9	10	8	12	4
MFI Average Number of MITAF deals*	6	6	6	4	8
# Standard Deviation*	3	3	3	2	2
MFI Average Percent of all MITAF deals	8.18%	7.76%	7.23%	4.81%	10.53%
% Standard Deviation	3.77	3.85	4.40	3.04	2.65
***Rounded up to whole deal at .5**					

The average percent and number for each year is more than the average and number for MFIs *not* selected for interviews. However, the MFI interview sample had more total capital investment deals, on average, than MFIs grouped for each of the years.

A two-way analysis of variance was conducted to investigate *percent* of total number deals differences in capital investments by year ("Yes," MFI received a capital investment commitment; "No," MFI did not receive a commitment). The years selected were the three highest in number of capital investment deals. ANOVA results are presented in the table below (Years With Most Deals: Yes/No). As shown in the table, the interaction between factors was not significant. The results showed a significant main effect for 2006 capital investment deals, (F (1, 8) =9.876, p = .014, partial η^2=.552), and 2008 capital investment deals (F (1, 8) =11.878, p = .009, partial η^2=.598). The effect size indicates that a large proportion of *percent* variance is accounted for by 2006 and 2008 when looking at the three years with the most capital investment deals. Capital investment deals for 2009 did not show a significant mean effect, (F (1, 8) =2.04, p = .119, partial η^2=.203), nor did any of the interaction effects (see table below). When viewing the three years with most capital investment deals in the context of MFIs, receiving capital in 2006 and 2008 significantly account for a substantial amount of variance in MFIs percent of total number deals.

TWO-WAY ANOVA SUMMARY TABLE—YEARS WITH MOST DEALS: YES/NO

Source	Sum of Squares	df	Mean Square	F	Sig (*p*) α=.05	Eta Squared
Corrected Model	184.646	7	26.378	5.795	.012	.835
Intercept	377.700	1	377.700	82.984	.000	.912
YN2006	44.950	1	44.950	9.876	.014	.552
YN2008	54.060	1	54.060	11.878	.009	.598
YN2009	9.287	1	9.287	2.040	.191	.203
YN2006*YN2008	9.287	1	9.287	2.040	.191	.203
YN2006*YN2009	6.057	1	6.057	1.331	.282	.143
YN2008*YN2009	18.467	1	18.467	4.057	.079	.337
YN2006*YN2008* YN2009	5.757	1	5.757	.985	.293	.137

Another two-way analysis of variance was conducted to investigate percent of total number deals differences in types of capital investments by year (loans, grants, both, none). The years selected had the most deals. A correlation matrix was used to assess collinearity, which indicated no significant correlations ($p > .370$). ANOVA results are presented in the table below. Except for 2008, all main effects and interaction effects were not significant. The 2008 main effects ($F(2, 4) = 7.0$, $p = .049$, partial $\eta 2 = .778$) represent the amount of variance in the percent of deals accounted for by types of deals. The Scheffe post hoc test was conducted to determine which types of deals were significantly different. Results revealed that the deal type *grants and loans* (M=10.30%, $\mu_{1/2}$=9.2%) significantly differed in percent of deals from all other types ($p<.005$). In addition, it is interesting to note MFIs with *grants and no loans* (M=3.95%) were not significantly different in percentage of deals from those with *no loans, no grants* (M=3.70%), given that the number of MFIs are the same ($p=.985$). When viewing deals in the MFI context, investment type by year did not significantly account for variances, but for 2008.

TWO-WAY ANOVA SUMMARY TABLE—TYPES OF DEALS: SELECTED YEARS

Source	Sum of Squares	df	Mean Square	F	Sig (*p*) α=.05	Eta Squared
Corrected Model	206.166	11	18.742	5.034	.066	.933
Intercept	456.036	1	453.056	121.688	.000	.968
Yr2006	29.023	2	14.511	3.898	.115	.661
Yr2008	52.122	2	26.061	7.000	.049	.778
Yr2009	7.577	1	7.577	2.035	.227	.337
Yr2006*Yr2008	11.663	3	3.888	1.044	.464	.439
Yr2006*Yr2009	3.018	1	3.018	.811	.419	.169
Yr2008*Yr2009	4.829	2	2.414	.649	.570	.245
Yr2006*Yr2008*Yr2009	.000	0				

APPENDIX J

BACKGROUND ON THE GLOBE STUDY

(text represented mostly verbatim, page numbers from book unless specifically noted otherwise)

***Culture, Leadership, and Organizations: The GLOBE study of 62 societies*. Editors, Robert House, Paul Hanges, Mansour Javidan, Peter Dorfman, Vipin Gupta. Thousand Oaks: Sage Publications: 2004.**

Global Leadership and Organizational Effectiveness (GLOBE) Research Program is multi-method, multiphase and is designed to conceptualize, operationalize, test, and validate a cross-level integrated theory of the relationship among culture and societal, organizational, and leadership effectiveness (p. 29). GLOBE measures both cultural practices and values at the organizational level of analysis (p. 29). In GLOBE Leadership is the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of the organizations of which they are members (p. 15). Each society studied was found to have a unique profile with respect to the culturally endorsed implicit theory of leadership (p. 17). GLOBE's empirically derived construct of *leadership* Performance Orientation directly relates to ambition and challenge. It reflects the leader's excellence orientation and constant pursuit of improvement….On a 7-point scale, the average is around 6.00, which is very high, reflecting the participant's belief that performance orientation is a highly effective characteristic for leaders (p. 267). The finance industry and overall country means score were both 6.02. (p. 268).

GLOBE was designed to explore the relationship among organizational and societal culture, and the content of culturally endorsed implicit leadership theory (CLT) belief systems (p. 11, 122). Researchers first specified the general nature of the constructs that they wanted to measure before writing any items or developing and GLOBE scales. They proposed that organizational culture, societal culture, and culturally endorsed implicit leadership theory are…convergent-emergent constructs. Convergent because the responses from people within organizations are believed to center about a single value usually represented by scale means.

Emergent because the properties of these constructs are actually manifested at the aggregate level of analysis, that is the organization (p.124). The GLOBE scales were designed to be psychometrically sound at the organizational and societal levels of analysis. This means that the scales were *designed to explain "between-organization" differences or "between-society" differences*. The scales were not designed to explain "between-individual" differences. The reliability of the scales is a joint function of inter-rater agreement and inter-item consistency (GLOBE Guidelines, 2006, p. 3).

There are six global leader behaviors of culturally endorsed implicit theories of leadership (p. 11, 14). Implied leadership theory suggests that these belief systems allow individuals to efficiently distinguish leaders from others. By knowing the content of an individual's leadership belief system, it is believed that one could predict whether that individual would perceive another individual as an effective or ineffective leader (p. 670). A major part of the GLOBE research program is designed to capture the CLTs of each society studied. They found that…if aggregated to the societal level of analysis,…responses to the leadership questionnaire…reflect the culturally endorsed implicit theory of leadership of the societies studied (PP. 16, 17).

The researchers identified 21 primary leader attributes or behaviors that are universally viewed as contributors to leadership effectiveness. Also, they identified 8 primary leader attributes or behaviors that are universally viewed as impediments to leader effectiveness. Furthermore, 35 specific leader attributes or behaviors are considered to be contributors in some cultures…and…impediments in other cultures. Finally, they identified six global leader behaviors (p. 14):

- Charismatic/Value-Based
- Team-Oriented
- Participative
- Humane-Oriented
- Autonomous
- Self-Protective

In each society, data were collected from at least one of the following industries: Food processing, finance, and telecommunications (p. 248, 249). The correlation between the overall societal practices score for each society and the scores for the participating industries were shown (p. 249). Performance Orientation perceived practices correlation between the *overall score* and *Finance Industry* (.97, n=54 nations, p<.01 2-tailed) was the highest of all industry-overall correlations (Table 12.7, p. 149).

A more recent genre of leadership theory is the neo-charismatic school of thought, which postulates that effective leaders not only combined task-oriented and employees-oriented behaviors, but they also show specific skills and mind-set relating to, among other things, setting ambitious goals and communicating high expectations of their subordinates. They achieve ambitious goals by building their subordinates' self-confidence and by intellectually challenging them. GLOBE's empirically derived construct of *leadership* Performance Orientation directly relates to this notion of ambition and challenge. It reflects the leader's excellence orientation and constant pursuit of improvement…focuses on the extent to which the attribute of excellence orientation is seen to lead effectiveness. ..On a 7-point scale, the average is around 6.00, which is very high, reflecting the participant's belief that performance orientation is a highly effective characteristic for leaders (p. 267).

GLOBE Guidelines (2006). *Guidelines for the use of GLOBE Culture and Leadership Scales*. August 1, 2006. http://www.bsos.umd.edu/psyc/hanges/index_files/GLOBE_Culture_and_Leadership_Scales_Guidelines.pdf. Accessed December 29, 2009.

BIBLIOGRAPHY

Adler, M. (2003). A Socio-Legal Approach to Administrative Justice. *Law & Policy, 25*(4), 323-352.

Adler, M. (2006). Fairness in Context. *Journal of Law and Society, 33*(4), 615-638.

Alesina, A., & Dollar, D. (2000). Who Gives Foreign Aid to Whom and Why? *Journal of Economic Growth, 5*(1), 33-63.

Allen, H. (2007). Finance Begins With Savings, Not Loans. In T. Dichter & M. Harper (Eds.), *What's Wrong with Microfinance?* (pp. 49-59). Warwickshire: Practical Action Publishing, Ltd.

Amin, S. (1972). Underdevelopment and Dependence in Black Africa-Origins and Contemporary Forms. *The Journal of Modern African Studies, 10*(4), 503-524.

APSR. (2011). Notes from the Editors. *American Political Science Review, 105*(3), iii-ix.

Aristotle. (1984). *The Politics* (C. Lord, Trans. Vol. Book II). Chicago: University of Chicago Press.

Armendariz de Aghion, B., & Morduch, J. (2005). *The Economics of Microfinance*. Cambridge: The MIT Press.

Armstrong, J. (1973). *The European Administrative Elite*. Princeton: Princeton University Press.

Ashman, D. (2001). Strengthening North-South Partnerships for Sustainable Development. *Nonprofit and Voluntary Sector Quarterly 30*(1), 74-98.

Bajaj, V. (2010, October 6, 2010). Sun Co-Founder Uses Capitalism to Help Poor*. New York Times*.

Bardhan, P. (1988). Alternative Approaches to Development Economics. In H. Chenery & T. N. Srinivasan (Eds.), *Handbook of Development Economics* (Vol. I): Elsevier Science Publishers B. V.

Bardhan, P., & Mookherjee, D. (2006). Decentralization, Corruption, and Government Accountability. In S. Rose-Ackerman (Ed.), *International Handbook on the Economics of Corruption* (pp. 161-188). Cheltenham, UK: Edward Elgar Publishing Limited.

Barnard, C. I. (1938). *The Functions of the Executive*. Cambridge: Harvqard University Press.

Barzelay, M. (1992). *Breaking Through Bureaucracy: A New Vision for Managing in Government*. California: University of California Press.

Bazeley, P. (2007). *Qualitative Data Analysis with NVivo* (Second ed.). Thousand Oaks: Sage Publications, Inc.

BBC. (2009, June 24, 2009). Blood Diamond Scheme "is failing". from http://news.bbc.co.uk/2/hi/africa/8116239.stm

BBC. (2011, December 12, 2011). Kenyan Hopes to Open Up Banking to the Poor. Retrieved December 30, 2011, from http://www.bbc.co.uk/news/world-africa-16109757

Beck, T., Demirguc-Kunt, A., & Levine, R. (2007). Finance, Inequality and the Poor. *Journal of Economic Growth, 12*, 27-49.

Bell, D. (2010). Who is Watching the Watcher? Vountary Networks as an Accountability Mechanism for Civil Society Organizations. *Pitt Political Review: GSPIA Edition, 2*(Summer 2010).

Benson, J. K. (1975). The Interorganizational Network as a Political Economy. *Administrative Science Quarterly, 20*(2), 229-249.
Bigombe, B., Collier, P., & Sambanis, N. (2000). Policies for Building Post-Conflict Peace. *Journal of African Economies, 9*(3), 323-348.
Birdsall, N. (2004). *Seven Deadly Sins: Reflections on Donor Failings*. Washington, D.C.: Center for Global Development.
Blair, D. C. (2001). Knowledge Management: Hype, Hope, or Help? *Journal of the American Society for Information Science and Technology, 53*(12), 1019-1028.
Blakewell, O. (2007). Breaching the Borders Between Research and Practice: Development NGOs and Qualitative Data. In M. Smith (Ed.), *Negotiating Boundaries and Borders: Qualitative Methodology and Development Research Studies in Qualitative Methodology* (Vol. 8, pp. 217-238). Oxford, UK: Elsevier Ltd.
Blau, P. M. (1963). *The Dynamics of Bureaurcracy: A Study of Interpersonal Relations in Two Government Agencies*. Chicago: University of Chicago Press.
Block, P. (1996). *Stewardship: Choosing Service Over Self Interest*. San Francisco: Berrett-Koehler Publishers, Inc.
BRAC. (2010). Evaluation of BRAC West Africa Microfinance Program. BRAC.
Brown, D. L., & Moore, M. H. (2001). Accountability, Strategy, and International Nongovernmental Organizations. *Nonprofit and Voluntary Sector Quaterterly, 30*, 569-587.
Brunnermeier, M. K. (2009). Deciphering the Liquidity and Credit Crunch 2007-2008. *Journal of Economic Perspectives, 23*(1), 77-100.
Bulir, A., & Hamann, A. J. (2003). *Aid Volatility: An Empirical Assessment*. Washington, D.C.: International Monetary Fund.
Bulir, A., & Hamann, A. J. (2008). Volatility of Development Aid: From the Frying Pan into the Fire? *World Development, 36*(10), 2048-2066.
BYU. Microcredit Issues and Debates. Retrieved May 2, 2009, from
http://www.kbyutv.org/programs/smallfortunes/issues/
Cai, H., & Theisman, D. (2005). Does Competition for Capital Discipline Governments? Decentralization, Globalization, and Public Policy. *The American Economic Review, 95*(3), 817-830.
Carroll, P., & Steane, P. (2002). Public Private Partnerships: Sectoral Perspectives. In S. Osborne (Ed.), *Public Private Partnerships: Theory and Practice in International Perspective*. London: Routledge.
Celasun, O., & Walliser, J. (2008). Predictability of Aid: Do Fickle Donors Undermine Aid Effectiveness? *Economic Policy*, 545-594.
CGAP. (2002). *UNDP and UNCDF Letter to Management*: CGAP.
CGAP. (2004). *How the Netherlands Government Fostered Successful Public-Private Partnerships for Financing MFIs*. Washington, D. C.: CGAP.
CGAP. (2006). *Good Practice Guidelines for Funders: Microfinance Consensus Guidelines*.
CGAP. (2009). *2009 Microfinance Funder Survey: Sub-Saharan Africa (SSA)*. Washington, D.C.: Consultative Group for Assisting the Poor.
Chouvy, P.-A., & Laniel, L. R. (2007). Agricultural Drug Economies: Cause or alternative to intra-state conflicts? *Crime Law Social Change, 48*, 133-150.
Cilliers, J. (2004). *Human Security in Africa*. Addis Ababa: African Human Security Initiative.
Clarke, A. E., & Friese, C. (2007). Grounded Theorizing Using Situational Analysis. In A. Bryant & K. Charmaz (Eds.), *The SAGE Handbook of Grounded Theory* (Paperback ed., pp. 363-397). Thousand Oaks: Sage Publications, Inc.
Clarke, G. R. G., Xu, L. C., & Zou, H.-f. (2006). Finance and Income Inequality: What do the Data Tell Us? *Souther Economic Journal, 72*(3), 578-596.
Coase, R. H. (1937). The Nature of the Firm. *Economica, New Series, 4*(16), 386-405.

Coleman, W. D., & Tangermann, S. (1999). The 1992 CAP Reform, the Uruguay Round and the Commission: Conceptualizing Linked Policy Games. *Journal of Common Market Studies, 37*(3), 385-405.

Collier, P., Dollar, D., & Stern, N. (2000). *Fifty Years of Development* (Working Paper). Washington, D.C.: The World Bank.

Collins, J. (2001). *Good to Great*. New York: HaprperCollins Publishers.

Collins, J. (2005). *Good to Great and the Social Sectors: A Monograph to Accompany Good to Great*. Boulder, Colorado.

Collins, J. (2009). *How The Might Fall: And Why Some Companies Never Give In*. New York: HarperCollins Publishers Inc.

Cook, K. S., Hardin, R., & Levi, M. (2005). *Cooperation Without Trust?* (Vol. IX). New York: Russell Sage Foundation.

Counts, A. (2010). Using Microfinance as a Platform to Achieve Breakthroughs in Health and Well-Being for People in Africa and the Middle East (Comment during presentation as a panelist at Africa-Middle East Microcredit Summit. ed.). Nairobi, Kenya.

Covan, E. K. (2007). The Discovery of Grounded Theory in Practice: The legacy of multiple mentors. In A. Bryant & K. Charmaz (Eds.), *The SAGE Handbook of Grounded Theory*. Three Oaks: Sage Publications, Inc.

Crowley, C., Harre, R., & Tagg, C. (2002). Qualitative Research and Computing: Methodological Issues and Practices in Using QSR NVivo and NUD*IST. *International Journal of Social Research Methodology, 5*(3), 193-197.

Crozier, M. (1964). *The Bureaucratic Phenomenon*. Chicago: University of Chicago Press.

Cull, R., Demirguc-Kunt, A., & Morduch, J. (2008). *Microfinance Meets the Market*. Washington, D.C.: The World Bank.

Cutcliffe, J. R. (2000). Methodological Issues in Grounded Theory. *Journal of Advanced Nursing, 31*(6), 1476-1484.

D'Innocenzio, A. (2011). Gap Plans Store Closure in US. Retrieved from http://finance.yahoo.com/news/Gap-closing-stores-in-apf-1353226024.html?x=0&sec=topStories&pos=4&asset=&ccode=

Davidoff, S. M. (2011, April 27, 2011). The Declining Worth of a Good Name: Window on Wall Street*. The New York Times,* p. 17.

Davis, J., Schoorman, F. D., & Donaldson, L. (1997). Toward a Stewardship Theory of Management. *Academy of Management Review, 22*(1), 20-47.

de Catheu, J., Kotoglou, K., Malhotra, D., Jacob, M., & Wee, A. (2008). *Resource Flows to Fragile and Conflict-Affected States*: Organization for Economic Co-operation and Development.

Demir, F. (2009). Capital Market Imperfections and Financialization of Real Sectors in Emerging Markets: Private Investment and Cash Flow Relationship Revistited. *World Development, 37*(5), 953-964.

Denzin, N. K., & Lincoln, Y. S. (2003). Introduction: The Discipline and Practice of Qualitative Research. In N. K. Denzin & Y. S. Lincoln (Eds.), *Collecting and Interpreting Qualitative Materials.* (Second ed., pp. 1-46). Thousand Oaks: Sage Publications, Inc.

Derksen, H., & Verhallen, P. (2008). Reinventing International NGOs: A View From the Dutch Co-financing System. In A. J. Bebbington, S. Hickey & D. C. Mitlin (Eds.), *Can NGOs Make a Difference? The Challenge of Development Alternatives* (pp. 221-239). London: Zed Books.

Deutscher, E. (2010). *Development Co-operation Report 2010*. Paris: Organisation for Economic Co-Operation and Development.

Dey, I. (2007). Grounding Categories. In A. Bryant & K. Charmaz (Eds.), *The SAGE of Handbook of Grounded Theory* (Paperback ed., pp. 167-190). Thousand Oaks: Sage Publications, Inc.

DFID. (2009). *Annual Report and Resource Accounts 2008-2009*. London: Department of International Development.

Dichter, T. (2007). Can Microcredit Make an Already Slippery Slope More Slippery? Some Lessons From the Social Meaning of Debt. In T. Dichter & M. Harper (Eds.), *What's Wrong With Microfinance?* (pp. 9-17). Warwickshire, UK: Practical Action Publishing, Ltd.

DiMaggio, P., & Powell, W. (1983). The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review, 48*(2), 147-160.

Donovan, N., Smart, M., Moreno-Torres, M., Kiso, J. O., & Zachariah, G. (2005). *Countries at Risk of Instability: Risk Factors and Dynamics of Instability*.

Doyle, K. (1998). *Microfinance in the Wake of Conflict: Challenges and Opportunities*. Besthesda: The SEEP Network.

Duflos, E., & El-Zoghbi, M. (2010). *Apexes: An Important Source of Local Funding*. Washington, D.C.: Consultative Group to Assist the Poor.

Dunion, G. (2010, October-December 2010). "Are the Achievement of the Goals still a viable prospect?" No. *Focus on Africa, 21,* 20.

Dunn, P. (2010). Strategic Responses by a Nonprofit When a Donor Becomes Tainted. *Nonprofit and Voluntary Sector Quarterly, 39*(1), 102-123.

Duval, A., & Bendu, F. (2006). *Mid-Term Evaluation September 2006: Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone Project SIL/03/C01*.

Duval, A., & Bendu, F. (2009). *Final Evaluation: Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone*. New York: United Nations Capital Development Fund.

Easterly, W. (2006). *The White Man's Burden: Why the West's Effort to Aid the Rest Have Done So Much Ill and So Little Good*. New York: Penguin Group Incorporated.

Easterly, W., & Pfutze, T. (2008). Where Does the Money Go? Best and Worst Practices in Foreign Aid. *Journal of Economic Perspectives, 22*(2).

ECOSOC. (2010). *Report of the 2010 ECOSOC Development Cooperation Forum*. New York: United Nations Economic and Social Council.

Edwards, M. (2004). *Civil Society*. Oxford: Blackwell Publishing, Ltd.

Eifert, B., & Gelb, A. (2005). Coping with Aid Volatility. *Finance and Development, 42*(3), 1-12.

Eifert, B., & Gelb, A. (2008). Reforming Aid: Toward More Predictable, Performance-Based Financing for Development. *World Development, 36*(10), 2067-2081.

Eisenhardt, K. M., & Graebner, M. E. (2007). Theory Building from Cases: Opportunities and Challenges. *Academy oif Management Journal, 50*(1), 25-32.

Ellerman, D. (2007). Microfinance: Some Conceptual and Methodological Problems. In T. Dichter & M. Harper (Eds.), *What's Wrong With Microfinance?* (pp. 149-161). Warwickshire, UK: Practical Action Publishing, Ltd.

English, P., & Stryker, D. (2006). *Sierra Leone: Adding Value through Trade for Poverty Reduction*. Geneva, Switzerland: Integrated Framework for Trade Related Technical Assistance to Least Developed Countries.

Escobar, A. (1995). *Encountering Development: The Making and Unmaking of the Thrid World*. Princeton: Princeton University Press.

Fielding, D., & Martrotas, G. (2005). *The Volatility of Aid*. Helsinki, Finland: United Nations University.

Fontana, A., & Frey, J. H. (2003). The Interview: From structured questions to negotiated text. In N. K. Denzin & Y. S. Lincoln (Eds.), *Collecting and Interpreting Qualitative Materials* (Second ed.). Thousand Oaks: Sage Publications, Inc.

Frederickson, H. G. (2005). *Public Administration with an Attitude*. Washington, D.C.: American Society of Public Administration.

Froelich, K. (1999). Diversification of Revenue Strategies: Evolving Resource Dependence in Nonprofit Organizations *Nonprofit and Voluntary Sector Quarterly, 28*(3), 246-268.

Gazley, B. (2010). Linking Collaborative Capacity to Performance Measurement in Government-Nonprofit Partnerships. *Nonprofit and Voluntary Sector Quarterly, 39*(4), 653-673.

Gephart, R. (2004). Qualitative Research and the Academy of Management Journal. *Academy oif Management Journal, 47*(4), 454-462.

Gerxhani, K. (2004). The Informal Sector in Developed and Less Developed Countries: A Literature Survey. *Public Choice, 120*(3/4), 267-300.

Glaser, B., & Strauss, A. L. (1967). *The Discovery of Grounded Theory: Strategies for Qualitative Research*. News Brunswick: AldineTransaction.

GLOBE. (2006). Research Survey-Form Beta. Vancourver, Canada: GLOBE Foundation.

Globerman, S., & Shapiro, D. (2002). Global Foreign Direct Investment Flows: The Role of Governance Infrastructure. *World Development, 30*(11), 1189-1919.

Gonzalez-Vega. (1998). *Microfinance Apex Mechanisms: Review of the Evidence and Policy Recommendations*. Columbus: The Ohio State University.

Gries, T., Kraft, M., & Meierrieks, D. (2009). Linkages Between Financial Deepening, Trade Openness, and Economic Development: Causality Evidence from Sub-Saharan Africa. *World Development, 37*(12), 1849-1860.

Gupta, V., & Hanges, P. J. (2004). Regional and Climate Clustering of Societal Cultures. In R. J. House, P. J. Hanges, M. Javidan, P. W. Dorfman & V. Gupta (Eds.), *Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies* (pp. 178-218). Thousand Oaks: Sage Publications, Inc.

.

Gutierrez-Nieto, B., & Serrano-Cinca, C. (2010). Factors Influencing Funder Loyalty to Microfinance Institutions. *Nonprofit and Voluntary Sector Quarterly, 39*(2), 302-320.

Hallberg, L. R.-M. (2006). The "Core Category" of Grounded Theory: Making Constant Comparisons. *International Journal of Qualitative Studies on Health and Well-being, 1*, 141-148.

Hanges, P., & Dickson, M. W. (2004). The Development and Validation of the GLOBE Culture and Leadership Scales *Culture, Leadership, and Organizations: The GLOBE study of 62 socieites* (pp. 122-153). Thousand Oaks: Sage Publishing.

Harbom, L., & Wallensteen, P. (2005). Armed Conflict and Its International Dimensions, 1946-2004. *Journal of Peace Research, 42*(5), 623-635.

Hartarska, V. (2005). Governance and Performance of Microfinance Institutions in Central and Eastern Europe and the Newly Independent States. *World Development, 33*(10), 1627-1643.

Hartarska, V. (2009). The Impact of Outside Control in Microfinance. *Managerial Finance, 35*(12), 975-989.

Harvey, M., Novicevic, M. M., & Kiessling, T. (2002). Development of Multiple IQ Maps for Use in the Selection of Inpatriate Managers: A Practical Theory. *International Journal of Intercultural Relations, 26*, 493-524.

Heady, F. (2001). *Public Administration: A Comparative Perspective* (Sixth ed.). Boca Raton: CRC Press.

Hendrick, R. (1994). An Information Infrastructure for Innovative Management of Goverment. *Public Administration Review, 54*(6), 543-550.

Holton, J. A. (2007). The Coding Process and Its Challenges. In A. Bryant & K. Charmaz (Eds.), *The SAGE Hanbook of Grounded Theory* (Paperback ed.). Thousand Oaks: Sage Publications, Inc.

Honohan, P., & Beck, T. (2007). *Making Finance Work for Africa*. Washington, D.C.: The World Bank.

Howell, J., & Pearce, J. (2001). *Civil Society and Development: A critical exploration*. Boulder: Lynne Rienner Publishers, Inc.
Hulme, D. (2007). Is Microdebt Good for Poor People? A Note on the Dark Side of Microfinance. In T. Dichter & M. Harper (Eds.), *What's Wrong With Microfinance?* (pp. 19-22). Warwickshire, UK: Practical Action Publishing, Ltd.
Hummel, R. P. (2008). *The Bureaucratic Experience: The Post-modern Challenge*. New York: M.E. Sharpe, Inc.
Imboden, K., Clark, H., & Herman, B. (2006). *Building Inclusive Financial Sectors for Development*. New York: United Nations Department of Economic and Social Affairs; United Nations Capital Development Fund.
IMF. (2009a). *Sierra Leone: Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility* (No. IMF Country Report No 09/215): International Monetary Fund.
IMF. (2009b). *Sierra Leone: Selected Issues and Statistical Appendix*. Washington, D.C.: International Monetary Fund.
Isidore, C. (2008, December 1, 2008). It's Official: Recession Since Dec. '07. Retrieved November 11, 2011, from http://money.cnn.com/2008/12/01/news/economy/recession/index.htm
Javidan, M. (2004). Performance Orientation. In R. J. House, P. J. Hanges, M. Javidan, P. W. Dorfman & V. Gupta (Eds.), *Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies* (pp. 239-281). Thousand Oaks: Sage Publications.
Jordan, L. (2005). *Mechanisms for NGO Accountability*. Berlin: Global Public Policy Institute.
Jurik, N., & Cowgill, J. (2005). The Construction of Client Identities in a Post-Welfare Social Service Program: The Double Bind of Microenterprise Development. In A. L. Schneider & H. M. Ingram (Eds.), *Deserving and Entitled: Social Constructions and Public Policy* (pp. 173-196). Albany: State University of New York Press.
Karlan, D., & Morduch, J. (2009). Access to Finance *Handbook of Development Economics* (Vol. 5): Elsevier Science and Technology Books.
Karlinger, L. (2009). The Underground Economy in the Late 1990s: Evading Taxes, or Evading Competition? *World Development, 37*(10), 1600-1611.
Kaufman, G. G. (1977). *Money, the Financial System and the Economy* (Second ed.). Chicago: Rand McNally Colege Publishing Company.
Kaufmann, D., Kraay, A., & Mastruzzi, M. (2003). *Governance Matters III: Governance Indicators for 1996-2002*: World Bank.
Kearns, K. P. (1996). *Managing for Accountability: Preserving the Public Trust in Public and Nonprofit Organizations*. San Francisco: Jossey-Bass Publishers.
Kearns, K. P. (2000). *Private Sector Strategies for Social Sector Succerss: The Guide to Strategy and Planning for Public and Nonprofit Organizations*. San Francisco: Jossey-Bass Inc.
Kettl, D. F. (2007). *The Transformation of Governance: Public Administration for Twenty-First Century America*. Baltimore: The Johns Hopkins University Press.
Koch, D.-J., Dreher, A., Nunnenkamp, P., & Thiele, R. (2009). Keeping a Low Profile: What Determines the Allocation of Aid by Non-Governmental Organizations? *World Development, 37*(5), 902-918.
Koenig-Archibugi, M. (2004). Transnational Corporations and Public Accountability. *Government and Opposition*, 234-259.
Kolk, A., & Van Tulder, R. (2006). Poverty Alleviation as Business Strategy? Evaluating Commitments of Frontrunner Multinational Corporations. *World Development, 34*(5), 789-801.
Krueger, R. A. (1988). *Focus Groups: A Practical Guide for Applied Research*. Newbury Park: Sage Publications, Inc.

Krugman, P. R. (2009, September 6, 2009). How Did Economists Get It So Wrong? *New York Times*.
Krugman, P. R., & Obstfeld, M. (2005). *International Economics: Theory and Policy* (seventh ed.). Boston: Pearson Education.
La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2000). Investor Protection and Corporate Governance. *Journal of Financial Economics, 58*(1-2), 3-27.
Latortue, A., Littlefield, E., Siedek, H., & McKee, K. (2007). *Managing the Floodgates? Making the Most of International Flows of Microfinance Funding*. Washington, D. C.: Consultative Group to Assist the Poor.
Lee, T. W. (1999). *Using Qualitative Methods in Organizational Research*. Thousand Oaks: Sage Publishing.
Levin, V., & Dollar, D. (2005). *The Forgotten States: Aid Volumes and Volatility in Difficult Partnership Countries (1992-20020*. Paris, France: Organization for Economic Co-operation and Development
Levy, F. (2002). *Apex Institutions in Microfinance*: Consultative Group to Assist the Poor.
Leys, C. (1996). *Rise and Fall of Development Theory*. Bloomington: Indiana University Press.
Low, M. B., & MacMillan, I. C. (1988). Entrepreneurship: Past Research and Future Challenges. *Journal of Management, 14*(2), 139-161.
Manalo, M. (2003). *Microfinance Institutions' Response in Conflict Environments*. Washington, D. C.: The World Bank.
March, J. G. (1999). *The Pursuit of Organizational Intelligence*. Cambridge: Blackwell Business.
Markham, A. N. (2008). The Methods, Politics, and Ethics of Representation in Online Ethnography. In N. K. Denzin & Y. S. Lincoln (Eds.), *Collecting and Interpreting Qualitative Materials* (Third ed., pp. 247-284). Thousand Oaks: Sage Publications, Inc.
Martinussen, J. (1997). *Society, State and Market: A Guide to Competing Theories of Development*. Halifax, Nova Scotia, Canada: Zed Books Ltd.
McGillivray, M. (2006). *Aid Allocation and Fragile States*. Helsinki, Finland: United Nations University.
Meagher, P., Compos, P., Christen, R. P., Druschel, K., Gallardo, J., & Martowijoyo, S. (2006). *Microfinance Regulation in Seven Countries: A Comparative Study*. College Park: The IRIS Center At The University of Maryland.
Mecca, L. P. (2010). ATLAS Training. In G. Students (Ed.). Pittsburgh: Senior Research Specialist, Qualitative Data Analysis Program, University Center for Soical and Urban Research, University of Pittsburgh.
Mersland, R., & Strom, R. O. (2009). Performance and Governance in Microfinance Institutions. *Journal of Banking & Finance, 33*, 662-669.
Miamidian, E., & Khalaf, R. (2009). *Restructuring of MITAF*.
MicrofinanceFocus. (2009). $15m Anti-poverty Initiative launched in sierra Leone, Liberia. *MicrofinanceFocus News*. Retrieved from http://www.microfinancefocus.com/news/2009/07/23/brac-leads-15m-anti-poverty-initiative-in-sierra-leone-and-liberia/
Miller, R., Debra, S., Timmons, H., Rosenbush, S., Smith, G., Weber, J., et al. (2000, October 30, 2000). The Financing Squeeze: Both the Banks and the Markets are Turning Off the Spigots. *Business Week,* 50-53.
MITAF. (2006). Investment Committee Policies and Procedures Manual.
Mollenkamp, C. (2011, Tuesday, June 21, 2011). Lending Battle is Risky Business*. The Wall Street Journal,* pp. c1, 2.
Momo, S., Costa, L., Letho, M., Manzi, S., & Rebakis, J. (2011). *Post-Conflict Action & Microfinance in Sierra Leone*. The Hague: Spanda Publishing.

Morse, J. M. (2007). Sampling in Grounded Theory. In A. Bryant & K. Charmaz (Eds.), *The SAGE Handbook of Grounded Theory* (Paperback ed.). Thousand Oaks: Sage Publications, Inc.

Moss, T., Pettersson, G., & van de Walle, N. (2006). *An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa*. Washington, D.C.: Center for Global Development.

Nancy, G., & Yontcheva, B. (2006). *Does NGO Aid Go to the Poor? Empirical Evidence from Europe*. Washington, D. C.: The International Monetary Fund.

Newton, X. A., & Llosa, L. (2010). Toward a More Nuanced Approach to Program Effectiveness Assessment: Hierarchical Linear Models in K-12 Program Evaluation. *American Journal of Evaluation, 31*(2), 162-179.

Nichols, D. M. (1975). Modern Money Mechanics: A Workbook on Deposits Currency and Bank Reserves: Federal Reserve Bank of Chicago.

North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. New York: Cambridge University Press.

Novogratz, J. (2009). *The Blue Sweater: Bridging the Gap Between Rich and Poor in an Interconnected World*. New York: Rodale, Inc.

Nutt, P. C. (2010). On the Study of Pocess: Merging Qualitative and Quantitative Approaches. In P. C. Nutt & D. C. Wilson (Eds.), *Handbook of Decision Making* (pp. 581-618). West Sussex: John Wiley & Son, Ltd.

OECD. (2011). *Development Aid at a Glance: Statistics by Region*. Paris: Organization for Economic Co-operation and Development

Ostrom, E. (2005). *Understanding Institutional Diversity*. Princeton: Princeton University Press.

Ostrom, E., Gibson, C., Shivakumar, S., & Andersson, K. (2002). *Aid, Incentives, and Sustainability: An Institutional Analysis of Development Cooperation*. Stockholm: Swedish International Development Agency.

Oxfam. (2005). *Paying the Price: Why rich countries must invest now in a war on poverty*. Oxford, U.K.: Oxfam International.

Pallage, S., & Robe, M. A. (2003). On the Welfare Cost of Economic Fluctuations in Developing Countries. *International Economic Review, 44*(2), 677-698.

Patton, A. (1996). *Physicians, Colonial Racism, and Diaspora in West Africa*. Gainesville: University Press of Florida.

Patton, M. Q. (1990). Designing Qualitative Studies *Qualitative Evaluation and Research Methods* (pp. 169-186). Newbury Park: Sage Publications.

Perkins, D. H., Raddelet, S., & Lindauer, D. L. (2006). *Economics of Development* (6th ed.). New York: W. W. Norton & Company.

Perloff, J. M. (2007). *Microeconomics* (Fourth ed.). Boston: Pearson Educaiton, Inc.

Pfeffer, J., & Salancik, G. (1978). *The External Control of Organizations: A Resource Dependence Perspective*. New York: Harper & Row, Publishers, Inc.

Picard, L. A. (2005). *The State of the State: Institutional transformation, capacity and political change in South Africa*. Johannersburg, South Africa: Wits University Press.

Picard, L. A., & Buss, T. F. (2009). *A Fragile Balance; Re-examing the History of Foreign Aid, Security, and Diplomacy*. Sterling: Kumarian Press.

Polgreen, L., & Bajaj, V. (2010, November 18, 2010). India Microcredit Faces Collapse From Defaults*. New York Times*.

Rapley, J. (2007). *Understanding Development: Theory and Practice in the Third World* (third ed.). Boulder: Pynne Rienner Publishers.

Reed, I. (2009). Sub-Saharan Africa *The Other World: Issues and Politics of the Developing World* (pp. 147-209). New York: Pearson Education, Inc.

Reed, L. R. (2011). *State of the Microcredit Summit Campaign Report 2011* Washington, D.C.: Microcredit Summit Campaign.

Reille, X., & Forster, S. (2008). *Foreign Capital Investment in Microfinance: Balancing Social and Finance Returns*. Washington, D.C.: CGAP.

Rodrik, D. (2000). Growth Versus Poverty Reduction: A Hollaw Debate. *Finance and Development, 37*(4).

Rosenberg, R. (2006). *Review of UNDP Microfinance Portfolio*. Washington, D. C.: CGAP.

RSL. (2002a). *National Microfinance Policy*.

RSL. (2002b). *National Recovery Strategy, 2002-2003*. Freetown: Government of the Republic of Sierra Leone.

Ryan, G. W., & Bernard, H. R. (2003). Data Management and Analysis Methods. In N. K. Denzin & Y. S. Lincoln (Eds.), *Collecting and Interpreting Qualitative Materials* (Second ed., pp. 259-309). Thousand Oaks: Sage Publications, Inc.

SadreGhazi, S., & Duysters, G. (2009). Serving Low-Income Markets: Rethinking Multinational Corporations' Strategies. In W. Dolfsma & G. Duysters (Eds.), *Multinationals and Emerging Economies: The Quest for Innovation and Sustainability* (pp. 166-183). Cheltenham, UK: Edward Elgar Publishing.

Said, E. W. (1989). Representing the Colonized: Anthropology's Interlocutors. *Critical Inquiry, 15*(2), 205-225.

Salisu, M. (2005). The Role of Capital Flight and Remittances In E. a. S. P. Division (Ed.), *Capital Flows and Current Account Sustainability in Africa*. New York: United Nations Economic Commission for Africa.

Schneider, F. (2002). *Size and Measurement of the Informal Economy in 110 Countries Around the World*. Paper presented at the Australian National Tax Centre Workshop.

Scott, R., & Davis, G. (2003). *Organizations and Organizing: Rational, Natural, and Open Systems Perspectives* (5th ed.). Upper Saddle River: Pearson Education, Inc.

Seers, D. (1972). What are We Trying to Measure? *Journal of Development Studies, 8*(3), 21-36.

Seitz, J. L. (2008). *Global Issues: An Introduction* (Third ed.). Oxford: Blackwell Publishing.

Sen, A. (1999). *Development as Freedom*. New York: Anchor Books.

Shuldham, W. L. (1903). *Remarks on the Small Loan-Fund System*. London: John W. Parket, West Strand.

Simon, H. (1996). *The Sciences of the Artificial* (Third ed.). Cambridge: The MIT Press.

Simon, H. A. (1997). *Administrative Behavior: A study of decision-making processes in administrative organizations* (Fourth ed.). New York: The Free Press.

Slim, H. (2002). *By What Authority? The Legitimacy Accountability and Non-Governmental Organizations*. Paper presented at the The International Council of Human Rights Policy International Meeting on Global Trends and Human Rights--Before and after September 11.

Smillie, I. (2009). *Freedom from Want: The Remarkable Success Story of BRAC, the Global Grassroots Organization That's Winning the Fight Against Poverty*. Sterling: Kumanian Press.

Snibbe, A. C. (2006). Downing in Data. *Stanford Social Innovation Review*(Fall), 39-45.

SPA. (2008). *Strategic Partnership with Africa: Survey of Budget Support*. Washington, D.C.

Spencer, S., & Wood, A. (2005). Making the Financial Sector Work for the Poor. *The Journal of Development Studies, 41*(4), 657-675.

Springer, C. G. (2011, August/September 2011). Management of the New Demographics in the Workplace*.* *PA Times,* p. 11.

Standard Treasury of Learning. (Ed.) (1960) Standard Treasury of Learning with Funk & Wangalls Dictionary for Young People

(Vols. 1). New York: Standard Reference Works Publishing Company, Inc.

Stern, P. N. (2007). On Solid Ground: Essential properties for growing grounded theory. In A. Bryant & K. Charmaz (Eds.), *The SAGE handbook of Grounded Theory*. Thousand Oaks: Sage Publications, Inc.

Stiglitz, J. (1988). Economic Organization, Information, and Development. In H. Chenery & T. N. Srinivasan (Eds.), *Handbook of Development Economics* (Vol. 1, pp. 93-160). Amsterdam: Elsevier Science.

Stiglitz, J. (1993). *The role of the state in financial markets.* Paper presented at the Proceedings of the Conference on Development Economics.

Stiglitz, J. (2000). Capital Market Liberalization, Economic Growth, and Instability. *World Development, 28*(6), 1075-1086.

Stone, D. A. (2002). *Policy Paradox: The Art of Political Decision Making*. New York: W. W. Norton & Company, Inc.

Strauss, A. L. (1987). *Qualitative Analysis for Social Scientists*. New York: Cambridege University Press.

Strauss, A. L., & Corbin, J. (1998). *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory* (Second ed.). Thousand Oaks: SAGE Publications.

Strubing, J. (2007). Research as Pragmatic Problem-solving: The Pragmatist Roots of Empirically-grounded Theorizing. In A. Bryant & K. Charmaz (Eds.), *The SAGE Handbook of Grounded Theory* (Paperback ed., pp. 580-601). Thousand Oaks: Sage Publications, Inc.

Suddaby, R. (2006). From the Editors: What Grounded Theory is Not. *Academy of Management Journal, 49*(4), 633-642.

Taylor, M. (2011). 'Freedom from Poverty is Nor for Free': Rural Development and the Microfinance Crisis in Andhra Pradesh, India. *Journal of Agrarian Change, 11*(4), 484-504.

The Economist. (2005, July 2). The $25 billion question. *The Economist,* 24-26.

The World Bank. (2000). *Reforming Public Institutions and Strengthening Governance* (A World Bank Strategy). Washington, D.C.: The World Bank.

Thomas, A. (2008). What Happened to Reciprocity? Implications of Donor Emphasis on 'Voice' and 'Impact' as Rationales for Working with NGOs in Development. In A. J. Bebbington, S. Hickey & D. C. Mitlin (Eds.), *Can NGOs Make a Difference? The Challenge of Development Alternatives* (pp. 90-110). London: Zed Books.

Thomson, D. E. (2010). Exploring the Role of Funders' Performance Reporting Mandates in Nonprofit Performance Measurement. *Nonprofit and Voluntary Sector Quarterly, 39*(4), 611-629.

Tomkins, S. (2010, October-December, 2010). Liberator or Liar? *Focus on Africa, 21,* 54-56.

Triplett, T. (2010). Survey Design of the Study of Congregational Giving for International Development and Relief Work [PowerPoint].

Tucker, J. (2011). Personal Email. In D. A. Bell (Ed.).

UN-Sierra Leone. (2008). *Priority Plan for Peace Building Fund*. Freetown, Sierra Leone: Republic of Sierra Leone and United Nations-Sierra Leone.

UNCDF. (July 16, 2009). Sierra Leone: Inclusive Finance. *Countries and Regions* Retrieved January 2, 2010, 2010

UNCDF. (2004a). *2003 Results-Oriented a Annual Report of the United Nations Capital Development Fund*. New York: United Nations Capital Development Fund.

UNCDF. (2004b). *Development of a Sustainable Pro-Poor Financial Sector in Sierra Leone (2004-2009)*.

UNCDF. (2008). *United Nations Capital Development Fund 2007 Results-Oriented Annual Report*. New York: United Nations Capital Development Fund.

UNDP. (2010). *The Real Wealth of Nations: Pathways to Human Development*. New York: United Nations Development Programme.

Van Slyke, D. M. (2005). Agents or Stewards: Using Theory to Understand the Government-Nonprofit Social Service Contracting Relationship. *Journal of Public Administration Research and Theory, 17*, 157-187.

Weitzman, E. A. (2003). Software and Qualitative Research. In N. K. Denzin & Y. S. Lincoln (Eds.), *Collecting and Interpreting Qualitative Materials* (Second ed.). Thousand Oaks: Sage Publications, Inc.

White, L. D. (1939). *Introduction to The Study of Public Administration* (Revised ed.). New York: The MacMillian Company.

World Bank. (2010). *Poverty Reduction Support Credits: An Evaluation of World Bank Support*. Washington, D.C.: The International Bank for Reconstruction and Devleopment/The World Bank.

Yin, R. K. (2009). *Case Study Research: Design and Methods* (4th ed.). Thousand Oaks: Sage Publications.

Yunus, H. (1999). *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*. New York: PublicAffairs.

Zietlow, J. T., Hankin, J. A., & Seidner, A. G. (2007). *Financial Management for Nonprofit Organizations: Policies and Practices*. New York: John Wiley and Sons, Inc.