

The Sustainability *Mantra*

It has become fashionable to talk about the financial sustainability of poverty reduction programmes. Donor Agencies, particularly those reliant on fund-raising from an increasingly conservative society, have been rooting for programmes that are apparently sustainable in the market.

Dianne Mitlin in this article argues that 'External agencies might usefully recognize the long history and remarkable persistence that charitable giving and state redistributive processes have shown whilst



markets sometimes fail'.

She is in favour of increasing the capacity of the poor to draw not just from the market, but also from the state and charitable finance (including grants and soft loans from international and domestic sources).

Sustaining markets or sustaining poverty reduction? *Diana Mitlin,*
Environment & Urbanization Vol 14 No 1 April 2002
[C.ELDOC6007207]



This article is a reminder to those activists and NGOs who have been embroiled in the project mode – competing with market forces to keep the project going are often at the cost of those among the poorest, who cannot meet the rigours of the market.

We had in an earlier issue highlighted how even as a project gets people out of poverty, there are many others falling into poverty – due to an expensive illness, a business disaster, a family crisis, or may be displacement – till these are tackled, even if relying on charity or state intervention, the so-called market sustainability is not really sustainable.



Sustaining Markets or Sustaining Poverty Reduction?

Diana Mitlin

What are we seeking to sustain?

Novelist C. P. Snow had the naïve belief that science and technology could save the world. But was this any more foolish than today's faith in markets and capitalism?

Nowhere is the faith in markets better illustrated than by the present focus of the development profession on financial sustainability as a measure of success.

Sustainability has become a benchmark measure for many development projects and processes. *“Is it sustainable?”* is the question that many development practitioners have had to face when explaining the benefits of their activities.

But what is meant by sustainability and, as importantly if it is to be used as an indicator of success, what is a meaningful measure of sustainability?

We should recognize that confusion has reigned over both the scope and meaning of the term sustainability. Authors have coined terms such as *“financial sustainability”*, *“environmental sustainability”*, *“social sustainability”* and *“political sustainability”*.

Simplistic it might seem, but on many occasions all they meant was achieving greater longevity for positive



development benefits. In some cases, the benefits of development projects have been verifiable and undisputed. However, in most cases, benefits have been disputed, differentially distributed and changeable, as social circumstances (generally beyond the influence of the project) changed themselves.

Sustainability represented a real effort by development professionals to tie down this uncertainty. A good project, it was argued, is only good if it is sustainable. As argued elsewhere, **we have to recognize that many development benefits can only be secured if society changes, and so sustainability can be a slippery indicator.**

Environmental sustainability is often judged to mean no damage to ecosystems or natural processes that are important for climate stability. *Social sustainability* is meant to be a continuation of positive benefits. As development practitioners, we may be more interested in ensuring the unsustainability of present inequitable social systems.

Applied to different models of human society and social organization, the criterion of sustainability can quickly imply judgements that are inward-looking and pejorative. A living culture changes and moves forward: industrial sectors change, social systems change and whilst change is not always positive, we should not assume that it will be negative. **Concepts of social sustainability may be immediately attractive but are unhelpful in practice.**



Looking more broadly at the present scale of environmental destruction, social inequity and exclusion, war and natural disaster, it might be argued that there is little that we should aspire to sustain. Hence, sustainability in environmental terms is

(generally) precisely applied to the ability of an ecosystem to maintain itself more or less intact during processes of change. The same concept applied elsewhere is much more difficult to tie down.

A Fetish for Financial Sustainability

The concept of financial sustainability is generally used to mean that adequate finance can be raised to continue the activities of the project without the use of subsidies from development agencies, or local or national governments.

It is the concept of financial sustainability that appears to be related to the present-day fetishism of the market. Development projects, programmes and processes that meet “market criteria” are judged to be “sustainable”. Service providers are encouraged to introduce user charges in order to make their services more sustainable. Microfinance programmes aspire to charge market interest rates, have high levels of repayment and low administration costs.

All these factors help to ensure that they have a potential supply of private capital and, hence, the **implicit assumption is that access to private capital translates into sustainability**. Those projects that require a subsidy are thought of less positively; they are criticized because it is assumed they are less likely to survive and to continue to offer a flow of services.

The term “*fetishism of the market*” is a strong one. It is used to highlight the argument of the paper, which is that we are in danger of attributing characteristics to the market that are not borne out by history. Globalization, characterized in particular, but not solely, around the extension of market systems and processes over widening spatial areas and into new sectors using information technology, is surrounded by what in retrospect may be seen as a somewhat incredulous faith in markets.

Keith Prowse expands his argument thus:

“Snow thought that technology, of itself, would solve just about every problem and especially those of the poor countries. But don’t the

Snows of today have just as naïve a faith in markets and capitalism – ‘globalization’ in contemporary jargon? And in another 40 years, won’t the unquestioned suppositions of our age look just as foolish as those that corralled Snow’s own mind?”

History provides us with many examples of how markets fail to live up to expectations and/or change rapidly due to all kinds of reasons. In South Africa, the 60 per cent devaluation of the Rand since November 2001 has affected many enterprises (and is generally considered to be a poor indicator of economic fundamentals in the country).

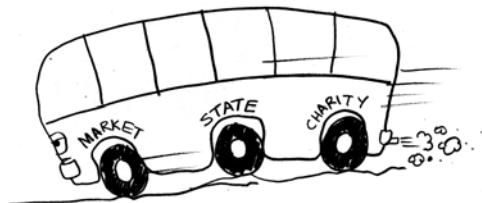
Economic activities requiring imported goods that are viable at one exchange rate will not continue to be viable as the rate moves adversely. In Zimbabwe, just across the border, inflation has been rising steadily over the last two years. Interest rates have increased from 20% to 60% in three years, the problems of the financial sector are considerable, and loan repayments that were sustainable with low inflation are no longer so.

It might be argued that the reasons for rising interest rates lie in political factors. That argument is a strong one in the case of Zimbabwe, much less strong in the example of the Rand in South Africa.

But whatever the cause, the consequence is that changes in market conditions mean that what is financially sustainable in one situation is not viable in another. The recognition that markets change suggests that programmes and projects that succeed according to market criteria have not found some holy grail; they too are vulnerable.

Alternative formulations of Sustainability

A road sweep of history suggests that there are three sources of development finance for pro-poor activities, in addition to the funds of the poor themselves: **market investment funds, state redistribution and charitable**



contributions. Of course, all three are not always available for every development activity, but their presence shows remarkable persistence.

Markets have existed in some shape or form for millennia, as formal and informal trading has taken place to provide people with goods and services that they need or desire, but which they cannot immediately provide for themselves.

States have been equally persistent, initially formed by peoples who grouped together, and increasingly with some form of institutionalized governance. On many occasions, these states have had a redistributive role. They have sought to provide for those in need and not as able as others to provide for themselves. At the same time, people have felt a direct empathy with those in need.

Charity also has a long and persistent role in human society and is a central tenet of most of the world's religions.

This leads to the conclusion that, in the long term, all three sectors – private, state, voluntary – are potential sources of funding for development activities. A “*sustainable*” project, one that is likely to continue to be viable, is likely to be one that creates within itself the conditions to strategise in order to **secure a mix of funding sources that reflects the relative advantages attached to each source and matches them with the needs of the poor.**

Perhaps the critical issue for development practitioners is how to create this mix. As critical an issue for theoreticians is understanding the consequences of too great an emphasis on one potential source of income over another.

All agencies that work with the urban poor, and are not of the urban poor themselves, require some source of support. It may be voluntary contributions from those who work there or it may be external finance.

Whilst contributions from the users of services may make some contribution towards costs, this is rarely sufficient to cover the full cost of the service. Indeed, if it is the case, then almost by definition, the poor do not need any external intervention and the market can provide what is needed at a cost the people can afford to pay.

It may be case that the market is failing to provide the services because of conditions in the market, and state regulatory intervention may be the answer – for example, investment in a piped water system within an illegal settlement. The market may not be working because of prejudice sourced by class and cultural differences.

The Carvajal Foundation in Cali, Colombia sought to encourage formal-sector building-materials factories to supply directly to the poor in order to reduce costs and improve accessibility. With experience, companies found it was profitable to open outlets in low-income settlements. The consequences of too great a concentration on the market may mean that projects and programmes exclude some of the poorest from participation.

The microfinance industry encapsulates many of the present contradictions between the objective of financial sustainability and poverty reduction. The lack of access to investment capital has been a major problem for many of the poor. The high rates of interest paid to informal-sector money lenders are evidence of the capacity of the poor to pay, and of their desperate need for liquidity and cash.

But the deification of the market in this process has resulted in microfinance practices that may tend to exclude the poor, in some cases because they cannot afford to be included but also because they are not so well-advantaged as better-off households who are eager to take up opportunities and who, as a result, can monopolize the space.

It should immediately be said that many microfinance sectors recognize that they are not seeking to reduce poverty but, rather, to provide financial services. Nevertheless, the funds that they use are, for the most part, development assistance monies allocated broadly to the relief of poverty.

Microfinance initiatives are increasingly designed to achieve financial sustainability; but what are the consequences? In general there is a bias towards those who are better off in a community. These borrowers take bigger loans, thereby reducing administration costs, and can cope better with risk and are

therefore a better risk for the lenders. Whilst many such programmes would rather favour the poorer members of the community, it is difficult for them to match needs with programme constraints.

The microfinance experience points to the dangers of too great a stress on financial sustainability rather than having a more balanced perspective. It is the poorest members of the community who are least able to participate in the market. Theory and evidence suggest that market processes such as user charges may discriminate against the poorest members of a community.

Recognizing market fallibility is difficult for development practitioners. It raises huge issues on managing and living with uncertainty. But maybe this is the only honest way to proceed.

An alternative way of seeing sustainability is to recognize that it may be better understood as a capacity to change in accordance with a changing world. What do communities need? They need the confidence to manage, the capacity to analyze, the experience to act well. This requires a collective process to exploit more than just the market.

In order to obtain higher and more stable incomes, stronger asset bases, secure, adequate quality homes with basic infrastructure and services, and protection from the law, the urban poor groups need to be organized in ways that are inclusive (for instance, through federations formed by savings and credit groups) and with representative organizations that are able to influence the design and implementation of responses from the state, NGOs, private utilities and external funders.

What should be sustained is the capacity of urban poor groups, individually and collectively, to draw on the market, the state sector and external donors to reduce their poverty. Development agencies recognize that there have been many past failures. Bad development investments have been made, failures have been ignored, successes have been created.

The movement towards financial sustainability has been born of very good intentions. Behind it lies a statement arguing that it matters what development

interventions leave behind. They should not create false expectations of continuing benefits that are unlikely to take place. They should make investments of one form or another, not simply consume the resources that have been allocated to them. But located within broader trends and widespread support for market processes, financial sustainability has come to play too significant a role.

Markets, governments and charity are all possible sources of support for any specific project, and are persistent sources of financial support across the full range of development programmes. The strong community is one that picks sources of funding that they themselves can manage with their existing capacities, and that uses the funding to address their needs. ►

NOTES

NOTES
