

India Development Blog



Friday 15 August 2008

Sustainability and Challenging the “Ideologically Attractive”

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Whereas orthodox public finance analysis suggests that governments or donors should indefinitely fund activities that generate positive externalities, advocates of sustainability emphasize the importance of local project “ownership”, and promote public goods projects that only require start-up funding and can then continue without external support. These efforts typically rely on voluntary activities by community members rather than on the granting of coercive fundraising powers to local governments.

The idea that development projects should aim at financial sustainability through voluntary local action has had tremendous influence in development thinking, in areas from microfinance to the environment. In public health and water supply, sustainability advocates concentrate on cost-recovery from beneficiaries, community mobilization, and health education rather than simply building wells or subsidizing medical treatments that generate externalities. The idea of replacing dependency on aid with a one-time investment that leads to long-run sustainability is certainly ideologically attractive.

Yet anecdotal evidence suggests that financial sustainability has often been an illusion, and sometimes a costly one. Morduch [1999] argues that the pursuit of sustainability by microfinance organizations has led them to move away from serving the poor. Meuwissen [2002] argues that a health cost-recovery program in Niger led to unexpectedly large drops in health care utilization, and that the local health committees set up by the program failed in most of their responsibilities. In a large water project in the Kenyan area we study, 43% of borehole wells were useless ten years after the shift from external donor support for water-well maintenance to the training of local maintenance committees [Miguel and Gugerty, 2005].

The above quote comes from the introduction to professors Michael Kremer and Edward Miguel's powerful paper entitled [“The Illusion of Sustainability.”](#) I have quoted the authors at great length because I believe this is such a provocative and important challenge to the current conventional wisdom in the development field (though this may already be changing). In the rest of the paper, the authors set out their counter intuitive argument that in some cases the most cost-effective and efficient way of distributing public goods is to give them away for free. They make their case primarily through statistics obtained from a randomized evaluation on the impact of introducing cost-sharing and education programs for distributing de-worming drugs in Kenya. [An earlier related study](#) had already demonstrated that within this setting de-worming drugs greatly reduce “moderate-heavy worm infections” and increase school participation.

De-worming drugs are a perfect product for the authors to exhibit the often futile and expensive efforts of NGOs and governments to create sustainable distribution of products for which people have a “low private valuation,” but for which there are great public benefits. The study found that

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neither an “intensive” education program nor a mobilization campaign where people were asked to commit to using the product had any significant effect on the take-up of the drugs. The authors highlight the absurd lengths NGOs and governments go to promote sustainability through education:

Our best estimate is that teacher training, teacher lessons at school, the lectures delivered by the NGO field team, and the classroom wall-charts and other educational materials taken together cost at least US\$0.44 per pupil per year in the assisted schools – which is comparable to the total cost of deworming drug purchase and delivery in a nearby Tanzanian program, at US\$0.49 [PCD, 1999].

The majority of the paper is dedicated to discussing the peer effects of introducing a large scale de-worming program for children into schools. The authors unexpectedly found that social contacts of those whose children were treated with the drug were less likely than non-social contacts to purchase subsidized de-worming drugs. They conclude that this is likely because the parents of children who took the drugs were disappointed in the drugs effectiveness because they were expecting a greater immediate impact to their children's welfare.

Kremer and Miguel also tackle the argument made by some policy makers and economists that cost-sharing (partially, but not fully subsidizing goods) often promotes “more efficient use of scarce public resources if those in greater need of health services are willing to pay the most for them.” The de-worming study found that “sicker pupils were no more likely to pay for deworming drug” (though this finding is not statistically significant). [In a similar study on the impact of cost-sharing on take-up of insecticide treated bed nets](#), also conducted in Kenya, Jessica Cohen and Pascaline Dupas find that those who are most likely to get malaria are no more likely to purchase bednets (controlling for other factors).

This same bednet study also contested another argument used by cost-sharing advocates. It is often argued that people who purchase a product are more likely to use that product intensively and over a longer period than those who are given the same product for free. Cohen and Dupas found that in at least the context of pregnant women in Kenya being offered bednets for free or a range of prices, there was “no clear relationship between the price paid and probability of usage.” Of course, I am trying to make an argument in a blog post and cannot go over all the counter points to the case made here, so I strongly encourage those interested to read the cited papers so they can consider the external validity of these conclusions. Also, contradictory evidence can be found in [a study conducted in Zambia on the effects on usage of different offer prices](#) for a water purification solution (all subsidized). The researchers found “strong evidence that higher prices selectively attract buyers with a greater propensity to use [the solution].”

The greater point is that not all products and services are the same, and in some cases creating sustainable markets may be all but impossible. Though it is certainly not “ideologically attractive,” I strongly believe Kremer and Miguel are correct in reminding us that for at last some essential public goods and services “There may simply be no alternative to ongoing subsidies financed by tax revenue raised either from local or national governments, or international donors.”

* In a future blog post, I will address what this may mean for microfinance and economic development in India. Happy Indian Independence Day!

Posted by Dan Kopf at 2:09 pm

Labels: [Education](#), [health](#), [Jonathan Morduch](#), [Kenya](#), [malaria](#), [microfinance](#), [social networks](#), [Sustainability](#), [taxes](#)

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 **Michael Chasnow** said...

Very thought-provoking post. For me, the question that stems from your key point that financial sustainability may not make sense for several health and development initiatives is how should government/international policymakers decide which initiatives to fund? There have been a few studies (e.g., the de-worming project in Kenya) that provide arguments for public financing, but is there guidance/tools that policymakers can use to make funding decisions?

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If there isn't such practical guidance, do we have enough information to create such guidelines, or is more research necessary?

17 August 2008 11:47 am

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