What Does "Sustainability" Mean in the Context of M4P in Health?

The Question

Sustainability is one of the most frequently-heard concepts in development. Unfortunately there are multiple definitions of the term; sustainability has come to mean different things to different constituencies. A review of the concept at the turn of the century referred to "at least 386 definitions of sustainable development." (Rigby et al., 2000)

The DFID-funded Private Sector Innovation Programme for Health (PSP4H) is an action research programme in Kenya exploring if a market systems approach (M4P, or *Making Markets Work for the Poor*) might benefit future pro-poor health care interventions. It is primarily a design instrument working in the markets where poor consumers pay to access for-profit private sector health care providers. Consequently, PSP4H uses a for-profit private sector lens when viewing its interventions, sustainability being a primary tenet of the M4P methodology. Precisely what does sustainability mean for private sector partners in the context of M4P in health care? What constitutes a sustainable M4P intervention? This brief is intended to provide a practical working definition.

Discussion

PSP4H's March 2014 monograph *A Study on Sustainability Outcomes of Donor-funded Programmes* states that "Donor funded programmes have often been set up without a clear vision of how long support will last and how programme gains will be sustained after the programme funding comes to an end…especially where subsidy or substantive on-going investments were key to programme gains…The idea is usually founded on government or the private sector taking over responsibility for funding or indeed the programme beneficiaries achieving a state of financial and technical autonomy to enable sustainable continuity." (PSP4H, 2014)

However, prior studies have concluded that "It is common for service delivery to become dependent on external aid and to collapse when aid is withdrawn." (Hitchins et al., 2004)

So is an intervention sustainable if the government, an FBO, a foundation, or a not-for profit picks up funding after the donor project ends? Theoretically, yes, for the next cycle of funding anyway, and for as long as the political will of the government or the interest of the private donor lasts. In practice, nevertheless, this is highly uncertain, for there is a difference between underwriting development activities that will be taken up by the market and funding transactions on an ongoing basis.

> **Economic Sustainability:**
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> "Within a business context, economic sustainability involves using the assorted assets of the company efficiently to allow it to continue functioning profitability over time."
>
> http://www.businessdictionary.com/definition/economic-sustainability.html

From the perspective of the for-profit private sector, this question is moot.

Any business model that attracts and leverages private sector investment into innovative areas that expand health care access for the poor must be customer-driven, rather than reliant on continuing subsidy. Private sector investment is key to market growth because it allows continuity of service to poor consumers beyond the period of intervention. And the private sector already dominates health care provision in Kenya –

although health care is widely perceived as a public good, World Bank figures show that health expenditure in Kenya in 2012 was actually only 38.1% public –the lion's share, 61.9%, already being in private hands. (World Development Indicators, 2014)

The "Develop-Distort" Dilemma

Unintended economic consequences may result from interventions that depend on subsidy and do not consider the private sector's view: "Health interventions tend to be judged by how well they achieve their intended [*health*] goals. Yet even projects that fulfil their stated goals may also cause unanticipated and potentially harmful effects during or after their completion. For example, they may create dependency in the recipient population, with the expectation that services would continue to be provided to them as a public good after the project ends…Even with the best of intentions, many interventions that are intended to develop a market for disadvantaged populations often end up distorting it in ways that make it more difficult to deliver or pay for the services once the intervention is over." (Peters et al., 2012) This indeed appears to be the case with a series of projects introducing subsidized commodities through the private sector in Kenya, for example Artemisinin-based Combination Therapies (ACTs) and Anti-Retroviral Treatments (ARTs), which have essentially remained public goods post-intervention.

> **Economic Sustainability**
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> "No amount of excellent social and environmental performance will prolong the life of a company that is economically unsustainable."
>
> Doane and MacGillivray, 2001

The Pro-Poor, Private Sector, For-Profit Perspective

While acknowledging that government is an inevitable part of any market system, PSP4H recognizes that the public sector's understanding of sustainability may be substantially different from that of the for-profit private sector. Social enterprise, civil society and the NGO sector may each have definitions that are yet different.

How does the for-profit private sector[1] look at sustainability, then? For-profit business takes a competitive, market-based view of its health care investments, making investment decisions on the same basis as for any other economic sector. Economic sustainability is a proxy for profitability: to be *prima facie* sustainable, an entity must have a surplus of revenues over expenditures over a period of time. This surplus comes in two stages: a day-to-day operating profit sufficient to keep the doors open, and then an excess sufficient to pay for the cost of capital. The time horizon must be long enough to return the capital investment. Capital needs to be replenished to cover asset depreciation, plus additional capital is required to fuel expansion. Up-scaling and crowding-in, which are overarching goals of market development, depend on new investment. Since business looks to its customers for its revenue stream, it is pivotal to consider where the revenue stream comes from – i.e. to view poor health consumers as active, paying market participants rather than passive beneficiaries.

Will the For-Profit Private Sector Play in Subsidized Markets?

Sustainability and subsidy tend to be antithetical concepts to business, as subsidy crowds out private investment where the cost of capital is paramount. The only condition under which for-profit business will play in subsidized markets is when the subsidy is guaranteed to the private enterprise over the enterprise's investment time horizon, which is typically long term. These situations are few and far between; there may be exceptional situations such as universal health insurance that may require permanent subsidy in order to cover the poorest of the poor who cannot pay on their own; but overall, M4P interventions do not depend on finding long

[1]For a definition of the for-private private sector in health, see PSP4H Policy Brief No. 1: *What Constitutes a "For-Profit" Health Care Provider*, February 2014

term subsidies in order to solve market constraints.

Proposed Solution

PSP4H proposes that, in the context of M4P in health, sustainability is defined as "Behaviour change among market participants that survives the intervention without further subsidy or dependence on external support, incorporating a customer-driven business model that replenishes capital and attracts new investment."

Tests for a sustainable M4P in Health intervention:

1. Does revenue come from consumers?
2. Does the operating model earn a profit?
3. Is the profit sufficient to cover cost of capital?

How to Design a More Sustainable Intervention

Developmental support can be clearly distinguished from transactional support, and the primary role of development actors in M4P is clearly facilitative and catalytic, a light touch. Sustainable M4P programmes invest in developmental activities, many of which are "sub-market" in the product/service life-cycle and not otherwise financeable, while avoiding direct interventions such as funding capital investments and transactions. Some examples of sustainable development activities are:

- Business modelling
- Calculated risk sharing
- Capacity building
- Introduction / demonstration of innovations
- Market research

Examples of less sustainable transactional activities are financing or provision of:

- Capital investment
- Construction
- Equipment
- Staff Costs
- Supplies

PSP4H takes a cost-sharing approach to funding its interventions as opposed to direct provision of grant funds to the partner, as the availability of cash creates its own set of incentives which may not be in line with the market based definition of sustainability proposed above. In the cost-sharing approach, the partners agree on allocation of roles and responsibilities within the intervention, and then each partner funds its own activities.

References

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