

**Adrien BRUNETTI**

**“Redefining the notion of sustainability in microfinance: a managerial challenge to avoid mission drift”**

Solvay Business School, University of Paris Dauphine.

## **Summary**

The goals of this paper are to prove that the current notion of sustainability, as it is presented by the managerial literature and by profit-oriented MFIs, is incomplete in comparison to the developmental approach of this notion. Its redefinition may then contribute to reinforce the non-financial side of the microfinance actor's mission, providing it with new strategies, new tools, new skills and potentially new opportunities to assess and reach this developmental *raison d'être* of microfinance.

As Hudon (2008) highlighted recently, **the microfinance sector is structured on two opposite trends**: the commercial oriented one, which produces management norms by being strongly promoted by the majority of the sector, and the non-profit one, which is much more social-oriented and through a good availability of soft loans and other types of easily accessible loans, can afford to produce values, on which, though, the entire sector should find a agreement.

As we mentioned above, **we identified two possible approaches** of the notion of “sustainability”: the developmentalist one, named so in reference to the well-known school of thought; the financialist one, as used by operators of financial markets and by companies. If the relatively blurred definition of the term is admitted (for instance: Knight, 2005; Amundsen & Asheim, 1991; Baden 1991), it is likely that the notion, “moving” within different fields, has been filled with differentiated meanings.

**The developmentalist approach of the notion of “sustainability”** is strongly focused on social and environmental performance. It is particularly well-adapted to non-profit actors with a strong developmental mission, because the economic interest is here not immediately perceived. The fundamental feature of this conception of “sustainability” is that it produces effects on the long-run.

**The financialist approach** is used in the microfinance sector as an operational concept despite of being synonymous of a very large number of terms. We notice that this vision of

“sustainability” appears to be the one exposed and explained in the management-oriented training on microfinance. It seems to be particularly adapted to for-profit institutions which would enforce strategies to reach a status of financial self-sufficiency. Indeed, including in the type of literature we analyzed, it appears that this kind of approach suits well the economic actors institutionally linked to financial markets. The most important feature of this approach is that it is company-centered.

If the microfinance sector is at the crossroads of the developmental and financial fields, then **the term of “sustainability” could move from being an unclear notion to being a real concept which sense is shared unequivocally.** The institutional movement created by this redefinition may end up with new challenges to cope with, giving back importance to the non-financial mission of microfinance and reunite the sector in a same mainstream.

As a matter of fact, **clearly-defined non-financial objectives, relying on clear definitions and on good implementing strategies** may radically ensure the developmental mission of MFIs. In order to partially transfer the risk supported by MFIs shifting to sustainability-oriented strategies in microfinance, many call for the creation of a superior institution regulating the microfinance sector. As mission drift results from a change in the MFIs objectives at a particular point in time, actions could be collectively taken to prevent any temptation of self-centered behavior.

In order to **implement at the lowest level of the microfinance sector the new guidelines** and possibilities drawn by a redefinition of the sustainability concept, at the light of the necessity to avoid mission drift by abiding by new forms of supervision, the manager has to innovate and motivate his/her staff towards new practices and performance principles.

**The method to comply with this proposal of a new sustainability contract** between all the stakeholders of the microfinance field is to trigger the debate on performance and share experience of possible assessment frames. The background idea is to promote cooperation (at least temporary) instead of competition, long-term yield instead of immediate productivities or efficiency gain, fundability instead of financial self-sufficiency; not with the understated objectives of take over the financialist view of the microfinance sector, but to reunite opposite views to ensure its maintainability in time.