

# Microcredit and Social Business for a Poverty Free World

**Muhammad Yunus**

Lagos, Nigeria

March 2011

## Grameen Bank

I became involved in the poverty issue not as a policymaker or as a researcher. I became involved because poverty was all around me, and I could not turn away from it.

In 1974, I found it difficult to teach elegant theories of economics in the university classroom, in the backdrop of a terrible famine in Bangladesh. Suddenly, I felt the emptiness of those theories in the face of crushing hunger and poverty. I wanted to do something immediate to help people around me, even if it was just one human being, to get through another day with a little more ease. That brought me face to face with poor people's struggle to find the tiniest amounts of money to support their efforts to eke out a living. I was shocked to discover a woman in the village, borrowing less than a dollar from the money-lender, on the condition that he would have the exclusive right to buy all she produces at the price that he decides. This, to me, was a way of recruiting slave labor.

I decided to make a list of the victims of this money-lending in the village next door to our campus.

When my list was complete, it had the names of 42 victims who borrowed a total amount of US \$27. I was shocked. I offered US \$27 from my own pocket to get these victims out of the clutches of those money-lenders. The excitement that was created among the people by this small action got me further involved in it. If I could make so many people so happy with such a tiny amount of money, why shouldn't I do more of it?

That is what I have been trying to do ever since. The first thing I did was to try to persuade the bank located in the campus to lend money to the poor. But that did not work. They didn't agree. The bank said that the poor were not creditworthy. After all my efforts, over several months, failed I offered to become a guarantor for the loans to the poor. When I gave the loans, I was stunned by the result. The poor paid back their loans, on time, every time! But still I kept confronting difficulties in expanding the program through the existing banks. That was when I decided to create a separate bank for the poor, I finally succeeded in doing that in 1983. I named it Grameen Bank or Village bank.

Today, Grameen Bank gives loans to nearly 7.00 million poor people, 97 per cent of whom are women, in 76,848 villages in Bangladesh. Grameen Bank gives collateral-free income generating loans, housing loans, student loans and micro-enterprise loans to the poor families and offers a host of attractive savings, pension funds and insurance products for its members. Since it introduced them in 1984, housing loans have been used to construct 644,965 houses. The legal ownership of these houses belongs to the women themselves. We focused on women because we found giving loans to women always brought more benefits to the family.

In a cumulative way the bank has given out loans totaling about US \$6.1 billion. The repayment rate is 98.28%. Grameen Bank routinely makes profit. Financially, it is self-reliant and has not taken donor money since 1995. Deposits and own resources of Grameen Bank today amount to 155 per cent of all outstanding loans. According to Grameen Bank's internal survey, 64 per cent of our borrowers have crossed the poverty line.

This idea, which began in Jobra, a small village in Bangladesh, has spread around the world and there are now Grameen type programs in almost every country.

## **Second Generation**

It is 30 years now since we began. We keep looking at the children of our borrowers to see what has been the impact of our work on their lives. The women who are our borrowers always gave topmost priority to the children. One of the Sixteen Decisions developed and followed by them was to send children to school. Grameen Bank encouraged them, and before long all the children were going to school. Many of these children made it to the top of their class. We wanted to celebrate that, so we introduced scholarships for talented students. Grameen Bank now gives 30,000 scholarships every year.

Many of the children went on to higher education to become doctors, engineers, college teachers and other professionals. We introduced student loans to make it easy for Grameen students to complete higher education. Now some of them have PhD's. There are 15,754 students on student loans. Over 7,000 students are now added to this number annually.

We are creating a completely new generation that will be well equipped to take their families way out of the reach of poverty. We want to make a break in the historical continuation of poverty.

## **Free Market Economy**

Many of the problems in the world today, including poverty, persist because of a too narrow interpretation of capitalism.

Capitalism centers around the free market. It is claimed that the freer the market, the better is the result of capitalism in solving the questions of what, how, and for whom. It is also claimed that the individual search for personal gains brings collective optimal result.

The theory of capitalism assumes that entrepreneurs are one-dimensional human beings, who are dedicated to one mission in their business lives - to maximize profit. This interpretation of capitalism insulates the entrepreneurs from all political, emotional, social, spiritual, environmental dimensions of their lives. Many of the world's problems exist because of this restriction on the players of free-market.

We have remained so impressed by the success of the free-market that we never dared to express any doubt about our basic assumption. We worked extra hard to transform ourselves, as closely as possible, into the one-dimensional human beings as conceptualized in the theory, to allow smooth functioning of free market mechanism.

I have said that capitalism is a half told story. By defining "entrepreneur" in a broader way we can change the character of capitalism radically, and solve many of the unresolved social and economic problems within the scope of the free market. Let us suppose an entrepreneur, instead of having a single source of motivation (such as, maximizing profit), now has two sources of motivation, which are mutually exclusive, but equally compelling - a) maximization of profit and b) doing good to people and the world.

Each type of motivation will lead to a separate kind of business. Let us call the first type of business a profit-maximizing business, and the second type of business as social business.

Social business will be a new kind of business introduced in the market place with the objective of making a difference to the world. Investors in the social business could get back their investment money, but will not take any dividend from the company. Profit would be ploughed back into the company to expand its outreach and improve the quality of its product or service. A social business will be a non-loss, Non-dividend Company.

Once social business is recognized in law, many existing companies will come forward to create social businesses in addition to their foundation activities. Many activists from the non-profit sector will also find this an attractive option. Unlike the non-profit sector where one needs to collect donations to keep activities going, a social business will be self-sustaining and create surplus for expansion since it is a non-loss enterprise. Social business will go into a new type of capital market of its own, to raise capital.

Young people all around the world, particularly in rich countries, will find the concept of social business very appealing since it will give them a challenge to make a difference by using their creative talent.

Almost all social and economic problems of the world will be addressed through social businesses. The challenge is to innovate business models and apply them to produce desired social results cost-effectively and efficiently such as healthcare for the poor could be a social business, financial services for the poor, information technology for the poor, education and training for the poor, marketing for the poor, renewable energy - these are all exciting ideas for social businesses.

Social business is important because it addresses very vital concerns of mankind. It can change the lives of the bottom 60 per cent of world population and help them to get out of poverty.

We cannot cope with the problem of poverty within the orthodoxy of capitalism preached and practiced today. With the failure of many Third World governments in running businesses, health, education, and welfare programs efficiently everyone is quick to recommend: "hand it over to the private sector". I endorse this recommendation whole-heartedly. But I raise a question with it. Which private sector are we talking about? Personal profit based private sector has its own clear agenda. It comes in serious conflict with the pro-poor, pro-women, pro-environment agenda. Economic theory has not provided us with any alternative to this familiar private sector. I argue that we can create a powerful alternative - a social-consciousness-driven private sector, created by social entrepreneurs.

## **Grameen's Social Business**

Even profit maximizing companies can be designed as social businesses by giving full or majority ownership to the poor. This constitutes a second type of social business. Grameen Bank falls under this category of social business. It is owned by the poor.

The poor could get the shares of these companies as gifts by donors, or they could buy the shares with their own money. The borrowers buy Grameen Bank shares with their own money, and these shares cannot be transferred to non-borrowers. A committed professional team does the day-to-day running of the bank.

Bilateral and multi-lateral donors could easily create this type of social business. When a donor gives a loan or a grant to build a bridge in the recipient country, it could create instead a "bridge company" owned by the local poor. A committed management company could be given the responsibility of running the company. Profit of the company will go to the local poor as dividend, and towards building more bridges. Many infrastructure projects, like roads, highways, airports, seaports, utility companies could all be built in this manner.

Grameen has created two social businesses of the first type. One is a yogurt factory, to produce fortified yogurt to bring nutrition to malnourished children. It is a joint venture with Danone. It will continue to expand until all malnourished children of Bangladesh are reached with fortified yogurt. Another is a chain of eye-care hospitals. Each hospital will undertake, on an average, 10,000 cataract surgeries per year at differentiated prices to the rich and the poor.

## **Social Stock Market**

To connect investors with social businesses, we need to create social stock market where only the shares of social businesses will be traded. An investor will come to this stock-exchange with a clear intention of finding a social business, which has a mission of his or her liking. Anyone who wants to make money will go to the existing stock-market.

To enable a social stock-exchange to perform properly, we will need to create rating agencies, standardization of terminology, definitions, impact measurement tools, reporting formats, and new financial publications, such as, The Social Wall Street Journal. Business schools will offer courses and business management degrees on social businesses to train young managers how to manage social

business enterprises in the most efficient manner, and, most of all, to inspire them to become social business entrepreneurs themselves.

## **Role of Social Businesses in Globalization**

I support globalization and believe it can bring more benefits to the poor than its any alternative. But it must be the right kind of globalization. To me, globalization is like a hundred-lane highway criss-crossing the world. If it is a free-for-all highway, its lanes will be taken over by the giant trucks from powerful economies. Bangladeshi rickshaws will be thrown off the highway. In order to have a win-win globalization we must have traffic rules, traffic police, and traffic authority for this global highway. Rule of "strongest takes it all" must be replaced by rules that ensure that the poorest have a place and piece of the action, without being elbowed out by the strong. Globalization must not become financial imperialism.

Powerful multi-national social businesses can be created to retain the benefit of globalization for the poor people and poor countries. Social businesses will either bring ownership to the poor people, or keep the profit within the poor countries, since taking dividends will not be their objective. Direct foreign investment by foreign social businesses will be exciting news for recipient countries. Building strong economies in the poor countries by protecting their national interest from plundering companies will be a major area of interest for the social businesses.

## **We Can Put Poverty in the Museums**

I believe that we can create a poverty-free world because poverty is not created by poor people. It has been created and sustained by the economic and social system that we have designed for ourselves; the institutions and concepts that make up that system; the policies that we pursue.

Poverty is created because we built our theoretical framework on assumptions which under-estimates human capacity, by designing concepts, which are too narrow (such as concept of business, concept of credit- worthiness, concept of entrepreneurship, concept of employment) or developing institutions, which remain half-done (such as financial institutions, where poor are left out). Poverty is caused by the failure at the conceptual level, rather than any lack of capability on the part of people.

I firmly believe that we can create a poverty-free world if we collectively believe in it. In a poverty-free world, the only place you would be able to see poverty is in the poverty museums. When school children take a tour of the poverty museums, they would be horrified to see the misery and indignity that some human beings had to go through. They would blame their forefathers for tolerating this inhuman condition, which existed for so long, for so many people.

A human being is born into this world fully equipped not only to take care of himself or herself, but also to contribute to enlarging the well being of the world as a whole. Some get the chance to explore their potential to some degree, but many others never get any opportunity, during their lifetime, to unwrap the wonderful gift they were born with. They die unexplored and the world remains deprived of their capacity, and their contribution.

Grameen has given me an unshakeable faith in the creativity of human beings. This has led me to believe that human beings are not born to suffer the misery of hunger and poverty.

To me poor people are like bonsai trees. When you plant the best seed of the tallest tree in a flower-pot, you get a replica of the tallest tree, only inches tall. There is nothing wrong with the seed you planted, only the soil-base that is given to it is too inadequate. Poor people are bonsai people. There is nothing wrong in their seeds. Simply, society never gave them the base to grow on. All it needs to get the poor people out of poverty for us to create an enabling environment for them. Once the poor can unleash his or her energy and creativity, poverty will disappear very quickly.

Let us join hands to give every human being a fair chance to unleash his or her energy and creativity.