

***The Man Who Is Creating a World Without Poverty:  
The Banker to the Poor***

by

By Richard Appelbaum

Thursday, January 10, 2008 - **Muhammad Yunus** is the winner of the 2006 Nobel Peace Prize for his path-breaking work in bringing microcredit (tiny loans for small businesses) to millions of impoverished Bangladeshis through the creation of the Grameen Bank.

The idea for microcredit began in the early '70s, when Yunus - an economist from Bangladesh's Chittagong University - led his students on a field trip to a poor village, where they interviewed a woman who made bamboo stools. Yunus learned that she had to borrow money at rates as high as 10 percent per week for the bamboo she used - a cost that left her with only two pennies a day as her total income. Had she been able to borrow under fair conditions, she would have been able to amass an economic cushion and rise above a subsistence level.

Realizing there must have been something terribly wrong with the economics he was teaching, Yunus took matters into his own hands. His students surveyed the village, compiling a list of 42 victims of usurious money-lending practices. Yunus then provided them with loans out of his own pocket. The sum total of his investment was the equivalent of 27 U.S. dollars. This modest experiment succeeded in putting the women on a self-sustaining cycle of business growth, lifting them out of poverty. It was also an epiphany for Yunus, who realized that tiny loans could make a huge difference in the lives of people trying to eke out a livelihood with small business ventures.

Against the advice of banks and government, who uniformly wrote off such people as unacceptable credit risks, Yunus started giving out microloans and in 1983 formed the Grameen ("village") Bank, based on principles of trust and solidarity. Because women (far more than men) could be counted on to invest the loans in business and repay them on schedule, they became the overwhelming participants in Grameen Bank, where they receive 97 percent of all credit. According to its Web site, Grameen today has some 2,468 branches in Bangladesh, with a staff of 24,703 people serving 7.34 million borrowers from 80,257 villages. Grameen's methods are applied in 58 countries - including the United States. And Yunus's belief that women could be trusted to repay the loans was fully vindicated: Default rates for Grameen Bank (2 percent) are lower than for any other banking system.

In this interview from December 2007, UCSB Professor Richard Appelbaum (Sociology and Global & International Studies) and Professor Yunus discuss the origins and reasons for the success of the Grameen Bank, as well as Yunus's call (in his latest book, *Creating a World Without Poverty*) for the creation of "social businesses" where profits would go not to investors but for poverty reduction.

**Your current work?—?which envisions eliminating world poverty through the creation of what you call "social business"?—?builds on the foundation of Grameen Bank, which you founded some 30 years ago. So let's begin by talking a bit about Grameen, before moving to a discussion of this new form of business organization.**

Grameen Bank started as a tiny little project in one village in 1976 and in 1983 became a formal bank. It is comprised 97 percent of women - many of these are near-destitute women, who rely on tiny loans. Yet despite the poverty of its borrowers, 64 percent of the borrowers have moved out of poverty during the last five years, according to our in-house survey. In other words, 64 percent have moved on - and we are hoping that eventually all will move on. Grameen Bank is owned by the borrowers themselves - it is owned by the poor women who rely on the microcredit loans for income generation. It is therefore tied to local money; each branch has to be self-sustaining. Local branches get no money from outside - there is no borrowing from the head office. The profit all goes back to the borrowers, some seven million poor people in 78,000 villages in Bangladesh. Since it first opened, Grameen's loans have totaled the equivalent of \$6 billion, and virtually all are repaid, despite the initial poverty of the borrowers. And Grameen is no longer the only microcredit institution in Bangladesh. There are a number of others, such as the Bangladesh Rural Advancement Committee. Microcredit today reaches four-fifths of all poor families in the country, and we expect to reach all of them within five years.

**One of the key ideas behind Grameen Bank is the notion of "social collateral." Could you explain how this works, and how you came up with the idea? Is this a way of assuring that the loans are used for business rather than personal consumption, and are eventually repaid?**

Although the bank gives loans to poor women, there are no formal guarantees the loans will be repaid: There are no legal documents, no lawyers to assure repayment?—?no one can be sued. This is "trust-based banking" - each borrower is responsible for her own loans. There is a group of five women who work together as a group, primarily so they can inspire one another, discuss common issues, deal with common problems. But they are not responsible for one another's loans, although they do help one another if there are family or business difficulties. This is a human relations form of banking. Collateral is not a necessary condition of our form of banking. To emphasize: This is based on trust, and it works. Repayment rates run 98-99 percent. In addition, all our borrowers have savings accounts so that when they reach old age they will have enough money.

The loans are used for income-generating activity - to start a business, to raise cows, etcetera. The idea is you use the loan to start generating income, so you can then pay it back, usually within a year. We also lend money to young people who are pursuing their education. We have 21,000 students with student loans, studying in medical schools and elsewhere. We also give some 30,000 scholarships to the children of our borrowers each year. We have a brand-new generation coming out! We even give loans to beggars - poor people who go door-to-door, who we call “struggling members” - so they can stop begging and generate income through selling such things as food, toys, or household items. We currently have 100,000 “struggling members” in the program. Ten thousand have become self-sufficient in their sales, and most of the rest now only have to beg part-time. Grameen provides them with small interest-free loans, which can be repaid in any fashion that works best for them - and about two-thirds of the money we have lent under this program has been repaid.

‘Poor women have many skills. What they need is a small amount of capital to invest so they are able to draw on those skills. — Muhammad Yunus

**As I understand it, Grameen requires its members to receive only basic training in financial matters, while some other microcredit programs require more substantial social and skill development guidance - in effect, using lending to improve human capital. Why doesn't Grameen do the same?**

All the programs in Bangladesh are similar; there is not much difference. We don't provide any training. We believe the women already have the necessary knowledge, and they have the spirit. Poor women have many skills. What they need is a small amount of capital to invest so they are able to draw on those skills. Skill training is not a condition to get a Grameen loan.

**But don't you think it is important to provide some training as a requirement for entry into Grameen? For example, the positive effects of microfinance are often overwhelmed by population growth. Why doesn't Grameen make family planning an explicit condition for lending?**

Actually, population growth in Bangladesh has declined sharply throughout the years, and one reason for this is women are becoming confident about their future. And, in fact, we do encourage them to be aware of issues of family size. All our borrowers have to pledge what we call the “16 Decisions.” The 6th Decision reads in part, “We shall keep our families small.” Of course, many of the women cannot read or write, so they have to listen to others recite the 16 Decisions, and then have to memorize them. This has become an extremely important part of our microcredit program.

**How do you evaluate the effectiveness of Grameen? Do you measure it in purely economic terms?—?number of loans, repayment rates, etcetera?—?or do you have other measures of its success?**

According to a World Bank study of Grameen, 5 percent of Grameen borrowers get out of poverty every year. We do our own surveys as well, and as I mentioned earlier, according to our figures, nearly two-thirds [64 percent] of borrowers who have been with Grameen for five years are now out of poverty. And our indicators of poverty are much more stringent than those of the World Bank, which defines poverty as earning less than a dollar per day. We have 10 indicators, and all must be met before we say a family is no longer poor. Our indicators include such things as housing quality, adequate nutrition, access to safe water, school attendance by children, certain minimal savings, etcetera. We look at all aspects of a person's life before determining that they have been lifted out of poverty.

**In your new book, *Creating a World Without Poverty*, you cite a number of impressive statistics that show how Bangladesh, despite its many challenges, has in fact improved during the past 30 years: Poverty has dropped from 74 percent to 40 percent, the rate of population growth has halved, the economy is currently growing 3-4 percent per person each year, more children are going to school. How much credit can Grameen take for Bangladesh's improvements?**

It is very difficult to say?—?these changes are the result of many factors. Many things have contributed. No study has ever been done that isolates the various causes of these improved conditions. But there is no question that Grameen Bank plays a positive role.

**Grameen has been replicated around the world. Could you talk a bit about where this has been done, how effective it has been, and where you see it going in the future?**

This idea has spread around the globe, and today there are many institutions that provide microcredit. Although Grameen itself, with a few exceptions, operates only in Bangladesh, we provide advice and technical assistance to others who request it. At the third Global Microcredit Summit in 2006, we estimated that 100 million families worldwide receive microcredit and other financial services, a number we hope to increase to 175 million by 2015. We also have the goal of lifting 100 million families out of poverty this way. If we assume there are roughly five persons in each family, this means half a billion people during the next decade - a number consistent with the United Nation's Millennium Development Goals.

Every place in the world has a microcredit program. We have programs in Asia, Latin America, Europe, Poland, Spain, the U.S.; microcredit is everywhere. There are 6,500 borrowers in Costa Rica, 3,000 in Guatemala?—?in programs run by Grameen Trust. These are beautiful programs that will be expanded to 30,000 in Costa Rica and 10,000 in Guatemala. We are even starting programs in China - Hainan, Sichuan, Inner Mongolia.

And it works. Everywhere the basic principles are the same: loans for income-generating activities, women as the primary recipients, loans repaid through

installments, etcetera. In this worldwide movement, we have created the Grameen Trust to provide technical assistance in setting up microfinance institutions - training programs, workshops, consulting, evaluation, monitoring. What we call its “Build-Operate-Transfer” program actually goes in, sets up and administers the microfinance program, and runs it until it becomes self-sustaining, at which time it turns the program over to the local people.

**You have been critical of the ability of national governments to lift billions of people out of poverty. Yet others have criticized microcredit as ultimately being too small-scale to do the job that only governments are equipped to handle. What should be the proper role of government?**

You don't need government for microcredit; government money destroys microcredit. Once the money comes from the government, politics gets involved with the credit program and this compromises its quality. People say if this is government money, why should I pay it back? Where microcredit is concerned, keep the government away. Government should be a supporter, provide the framework, but it should not be directly involved in the programs.

**Let's move on now to a discussion of “social business,” the central topic of your new book. What exactly is a “social business,” and how does it differ from traditional free enterprise?**

Ordinary businesses are aimed at making money. There is a bottom line. Technically, they should be called “profit-maximizing businesses.” There is no consideration of how people benefit; it is all about making profits. Social business, on the other hand, is all about social benefits, not personal gain. Profits are important to social businesses, which seek to sell products at prices that make it self-sustaining. A social business is not a charity. But profits are not the ultimate goal. When the social business turns a profit, the original investors are repaid, but the rest of the profits stay with the company in order to achieve its long-term social goal of helping the poor. Unlike a profit-maximizing business, the profits of social businesses are not paid out as dividends to shareholders or investors; they are always reinvested in the business itself. So a social business can best be defined as “a non-loss, non-dividend business.”

There are two kinds of social business. The first kind, which I just described, is aimed at providing a social benefit rather than maximizing profits, and can be owned by any business or corporation, so long as this goal is realized. The second kind is the sort of microenterprise we were talking about earlier: profit-maximizing businesses owned by the poor. In this case, the social benefit is realized directly - by elevating the owners of the business out of poverty.

**This certainly sounds like a noble idea. But why would a businessperson invest in a company that pays no dividends and therefore provides no return for investors?**

Why do people create a foundation and give away their money? Because they want to do something good with their money. The world is not divided into two kinds of people, those concerned with profit maximizing and those concerned with doing good for people and the planet. People are multidimensional -they have many interests and goals. Social businesses are based on this fact. Moreover, with a social business, the money doesn't disappear like it does with a foundation. When a foundation makes its grant, the money is usually gone forever. If the foundation puts its money into a social business, however, that money has an unlimited life: It generates income, is repaid, and can be used to generate more income with other borrowers.

Corporate Social Responsibility [CSR], when done by ordinary businesses, suffers from the same problem: The money may be spent on something good, but then it is gone. If you can do CSR in the form of a social business, the money will stay in the business, continue, and grow. Others will be attracted, and other social businesses will result. People want to do good things; what they need is a means to do so. That is why I think, for example, that a social stock market will work, as a means of raising capital for social businesses. People want to help others. Some future sources of funding for social businesses might include existing companies that want to do good; foundations, which could create social investment funds; successful entrepreneurs who have social concerns; international and bilateral development donors; governments; wealthy individuals; and of course young people, fresh out of college, who want to see a better world.

Remember, we are not saying social businesses are required of everyone. Social businesses are an option, after all; everyone doesn't need to invest in one. All we are saying is that if you want to do this - here it is.

**In your new book, you describe an impressive number of business ventures that grew out of Grameen, addressing everything from solar energy to healthcare to cell phones, all aimed at serving the poor. Could you talk about a couple of your successes, and the role played by microcredit?**

We have an investment from a major yogurt company [best known in the U.S. as the makers of Dannon Yogurt], which is partnering with us to make yogurt as a social business. A state-of-the-art factory has been built and is now operating in Bogra, a town in northern Bangladesh. The yogurt is fortified with all the nutrients the local children are missing, so when the children eat it they gain their required nutrition. And Danone is doing this not to make a huge profit?—?it is structured as a social business so profits are not distributed as dividends - but because the company wants to have a positive impact on the health of the children. The factory, which has been producing yogurt for less than a year, is now widening its supply chain so more and more people can get to it.

It takes time to sell the idea to the local poor people. We know we could sell it in the city market any time we want, but our target market is the children. Our hope is to make 50 such plants all over Bangladesh, to widen our supply network. The plant was

kept intentionally small so the yogurt could be kept local, in the neighborhood. Otherwise, refrigeration systems would be needed in order to transport the yogurt to other cities, and this would add to the cost. Under our current plan, we do not need to spend money to keep the yogurt cool; we simply sell [it] locally within 24-48 hours of manufacture. This, along with the social nature of the business, enables us to sell the yogurt profitably at prices the local people can afford.

There are numerous other examples of successful social businesses discussed in *Creating a World Without Poverty*. These include 30 Grameen Energy centers promoting solar homes and biofuel systems; a partnership between Intel and Grameen to set up a WiMax network in Bangladesh and bring personal computers into the high schools; a Grameen-supported fish farm and livestock program; 33 health clinics, each affiliated with a Grameen bank branch, which provide basic health services to Grameen families for \$2 a year.

**A group of us in Santa Barbara just launched the Chad Relief Foundation, a nonprofit currently working with refugees from the conflicts in the Central African Republic who live in camps in southern Chad. How would we go about setting up a microcredit operation there?**

There are two ways. Grameen could train you in the area; you could work with the Grameen Trust. Or you could hire someone who is familiar with microcredit programs, perhaps in a neighboring country. By now there are many people who have experience and training. They will teach you how to identify poor women - to distinguish them from women who are not poor but are just looking for the money, how to bring them together, how to develop trust. Find out how it is being done elsewhere and replicate it. It is not difficult; the important thing is to get it done.

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