



CHATHAM HOUSE

Chatham House, 10 St James's Square, London SW1Y 4LE

T: +44 (0)20 7957 5700 E: [contact@chathamhouse.org](mailto:contact@chathamhouse.org)

F: +44 (0)20 7957 5710 [www.chathamhouse.org](http://www.chathamhouse.org)

Charity Registration Number: 208223

## Transcript

# Social Business: A Way to Solve Society's Most Pressing Problems

Professor Muhammad Yunus

Founder, Grameen Bank and Nobel Laureate

Chair: Rt Hon Lord Boateng

House of Lords

25 November 2011

The views expressed in this document are the sole responsibility of the author(s) and do not necessarily reflect the view of Chatham House, its staff, associates or Council. Chatham House is independent and owes no allegiance to any government or to any political body. It does not take institutional positions on policy issues. This document is issued on the understanding that if any extract is used, the author(s)/ speaker(s) and Chatham House should be credited, preferably with the date of the publication or details of the event. Where this document refers to or reports statements made by speakers at an event every effort has been made to provide a fair representation of their views and opinions, but the ultimate responsibility for accuracy lies with this document's author(s). The published text of speeches and presentations may differ from delivery.

### **Lord Boateng:**

Good afternoon and welcome. Welcome to Chatham House and a particular welcome to our members who are watching and participating in all of this as it is streamed live on the Chatham House website. That means that we are actually going to be pretty disciplined in the course of this afternoon session. I'm going to ask you when we have the discussion later on to be as succinct and as brief as possible with your questions and your contributions otherwise I fear I'm going to be cutting you off in your prime and we want as many of you as possible.

This event today is part of a series of events to mark Aung Sung Suu Kyi winning the Chatham House Prize of 2011 around the theme of democracy and human rights. We couldn't have this afternoon a better interlocutor in that regard than Professor Muhammad Yunus not least because his whole life – as you all know – has been devoted to empowering and enfranchising the poor, recognising that there can't be human rights without the right of all of us to participate in the economies in the countries in which we live. A pioneer and a laureate for his work on microfinance, he has also created a multibillion dollar Grameen Group of social businesses which touch the lives of millions of poor people all over the world in markets that are all too often neglected by the mainstream banking and commercial sector.

He is here today to receive a doctorate from LSE – and from those of us who are connected to that university one way or another that is a particular plus – and we are delighted Dr Muhammad Yunus that you are able to be with us here this afternoon and I invite you to address us around the theme of 'Social Business: A Way to Solve Society's Most Pressing Problems'.

### **Muhammad Yunus:**

Thank you. Thank you very much. I'm delighted to be here and thank you for your kind introduction. I have been hearing about Chatham House but I have never been here. This is the first time and it's a wonderful experience.

Briefly I will just give you an idea how I got started in what I do and why I did it. I was a teacher just like any young teachers do anywhere, teaching my class in Bangladesh. But Bangladesh was going through a terrible situation at that time in the mid-seventies. There was famine in the country. We had just come out of a liberation war to become a separate country in 1971 and we were still going through the euphoria that we were going to create a beautiful country

and everything would be solved. But instead we were going down and ended up with famine.

So that's when you feel the emptiness of what you teach. I was teaching economics. You see what I teach, all of those elegant theories, they don't make any sense to people outside the classroom. I thought that I – in a state of feeling rotten about it – should make myself useful to the people next door, to the inner city campus, those in the village. So my ambition was to see whether I could make myself somehow useful to the people there even if I was only there for one day for one person.

So while I was doing that I tried a few little things but I discovered a whole new world of people who lived there: what they do and what kind of problems they face. This was quite unknown to me because economics makes you have a birds-eye view. You fly high and you think you see a lot and you think you understand everything because you're seeing everything. And you fool yourself. With what I was doing I felt I had a new kind of perspective: I had a worms-eye view. I see very closely, I see very clearly, I understand. The problems didn't look as complicated as it looked from the sky. So I'm trying to make myself somehow activated to find those tiny little solutions.

One thing that came to my attention was the loan sharking in the village. I'm sure you're familiar with the loan sharking everywhere, including the cities. This was very pathetic because these tiny loans are given to the poor people and literally their entire life is controlled by the person who gave them the loan. And their life is made miserable because of it. So I wanted to see how much money was involved, how many people were involved. I made a list. There were 42 names on that list of people who borrowed money when it was finished. The total money they borrowed was \$27. I couldn't believe that people had to suffer so much for such a little bit of money. It was never taught in my classroom or in my textbooks. So I thought for a while about the unkindness of the whole situation. Then I realised that I can solve this problem – at least in this particular case. All I have to do is give this \$27 to these 42 people, ask them to return the money to the loan sharks and they will be free. The loan sharks cannot touch them anymore.

I did that right away. I didn't expect what the reaction would be. I thought that this needed to be done and I did it. But the sensation that it created in the village... they couldn't believe that somebody would do such a thing. Seeing this phenomenon I asked myself, 'If you could make so many people so happy why shouldn't you do more of it?' So I thought I could do more of it, something so simple. And before I thought I could continue to do this, maybe I could go

to the bank to link the bank with the people. Instead of going to the loan shark you go to the bank to lend to the people.

When I proposed it to the bank, the manager fell from the sky. He said, 'Are you kidding me? The bank lending money to the poor people: do you know who they are?' I said, 'I know, I work with them.' He said that they would never pay back and I said how did he know? So we had a long debate where he would not budge from his position and I would not budge from my position. It went on a long time that led me to other high officials in the banking system. Everybody gave me the same answer: that it could not be done.

So after months of trying and I couldn't find a way to open it, I said that I would be a guarantor. I will sign every piece of paper you give me. I take the risk, you give the money. That took another couple of months to persuade them. Finally they agreed and I started signing papers and getting money to the people – a very small sum. And I came up with ideas how to make it easy for people to pay back and they were paying it back 100 percent. I had no problem.

So that was the beginning of what later became known as microcredit. The term didn't exist before 1976 when we began that. So that word had to be invented and introduced into the language and then the other alternative name microfinance came to describe the same thing and we created a bank out of it – The Grameen Bank. Today it works all over Bangladesh. We have 8.3 million borrowers of whom 97 percent of them are women. They take tiny loans to start income generating activity and they pay the loan week by week in weekly terms. This is what microcredit is all about.

They say. 'It's so wondrous, it's so wondrous.' People say, 'How do you do that? How can you get money from people who don't have any money? You lend money and they pay you back!?' It's tough times getting money out of the rich people particularly in Bangladesh. It's very tough. The bigger you are, the most likely that you are the big defaulter. People said, 'How do you do that?' And I said that it was very simple for me. I didn't need a rule or principle to do that, I just look at the banks. I don't know anything about banking. I just bumped into it. I have no idea. So I looked at the conventional banks and how they do it. Once I learnt it, I just did the opposite. They go to the rich, I go to the poor. They go to men, I go to women. Ninety-seven percent of our borrowers are women. They go to the city centre and make a big office. We go to the remote village – we always work in the village – they ask for collateral. What collateral? I said that poor people have no collateral, why are you asking them? That question doesn't exist in this situation so we dismissed collateral.

Once you dismiss collateral another thing happens. They have lots of lawyers in the conventional banks. We have no lawyers. What do we need lawyers for because we don't have papers? We are the only lawyer free bank in the whole world and our bank works beautifully, our payments have no problem. We are not the one that has got into the collapsing situation in 2008 when the big banks were falling apart. It's a very funny situation about 2008 for me personally because banks were explaining in 1976 that you cannot lend money to the poor people because they are not creditworthy. In 2008 the same year we started a program in New York City called Grameen America to lend money to the poor in New York City. It was working beautifully because we followed the same principle we followed in the village in Bangladesh, we have not compromised anything. But later in the year – we started in January – later in the year the financial crisis came. Big banks almost on the other side of the street started collapsing while this little bank, which started several months back, was flourishing. I said I wished some journalist here would be asking me now, 'Who is credit worthy?'

So this is the mystery of banking. You don't know what you're talking about. One by one, it's a long list the differences between Grameen bank and the conventional bank. The conventional bank always wants to know how much experience you have in the business you want to do with their money. You have to prove that you are an expert in the business, that you know everything to convince them you can run the business well. When we go to a woman to tell her that we want to lend her money, would she be interested? She tells us, 'No way, I'm not interested. I don't know what to do with money. Give it to my husband.'

We train our staff so that when we see a woman and talk about Grameen Bank she says she doesn't know anything, please don't give her any money, she can't handle money. You always know she's the one we're looking for. She says no not because she doesn't know anything, it's because the answer she gives is not her voice. It is the voice of history, the history that was created her. For generations she has been told that she is no good. Good for nothing. Only men can do things, not the women. So she is just responding as a person to the history that she has been taught. She is packed with fears. That's what society has given her, fears. It's our job, now that we've found one, to peel off these layers and layers of fear that she is surrounded by and to finally let her emerge and peek at the world and say, 'Maybe I should try.' And that is the moment we have been waiting for.

It took us six years to achieve a 50-50 level because our ambition was that the number of men and the number of women should be even. I have been critical

about the banking system in Bangladesh. Not even one percent of borrowers are women. This is totally unjust. So I wanted to make it a just system and this took us six years. Then we saw that money going to the family through women brought so much more benefit in comparison to men. You could write books about it. How it is different. Then we said why are maintaining this 50-50 level, why don't we focus on women because that's where you make the biggest change in the family. So we started focussing on women. Since, the result was many years back we became 90 percent, 95 percent, 97 percent and this is what Grameen is.

When microcredit spread outside Bangladesh like in New York City – we have four branches in New York City – where we have 6,500 borrowers and are 100 percent women. In a country where it is illegal to discriminate on the basis of gender, we made our rules in such a way that we can get over this law. We said they don't come to us. It's offered but they don't come to us. It's the hurdles we create for them.

So that was successful and we were invited to do it in Omaha, Nebraska. We opened a branch in Omaha, Nebraska. People got excited. They said, 'We want it, please come here, we will give you all the money to run it.' We were invited to Indianapolis so we have another branch in Indianapolis. Now San Francisco and Detroit are waiting to open two other branches there.

So this is the universality of the whole thing. It works in every situation because banking is done in such a skewed way. It became some sort of institution where it is geared to the big guys and the big corporations. The real people missed out on the whole system. If you look globally, you see two-thirds of the total population are not touched by the banking system. It's only a one-third system. Why are we running around with only the one-third system and not doing it for the rest of the people. Is it because they don't need the money? The poor guy has as much ability as anyone else but just doesn't have the first unit of money to start something on their own. So nobody gives them one. I always say, 'To catch a dollar, you need a dollar. With an empty hand, you never need a dollar.' So somebody has to put a dollar in their hand so they can go and make a living for themselves and feel confident about it.

This is the microcredit scenario that we have built up. People say that we are looking for the entrepreneurial poor; only they can do it. What do they mean entrepreneurial poor? Everybody is entrepreneurial. They say only the entrepreneurial poor will be successful. That never entered my mind to look for entrepreneurial poor. When I go to a woman, she says she doesn't know anything. I train my staff to say to that woman, 'You are the one we are

looking for'; because I believe all human beings are entrepreneurs. It's in the DNA of human beings. That's how we survive on this planet. Suddenly you are saying that some people are entrepreneurs and others are not, just because you want to serve entrepreneurial people. You make a class. That is the wrong conception of human beings. All human beings are packed with unlimited capacities and unlimited potentials. Simply society just never gave them a chance to bring it out. Like this woman I was describing, you need to peel back the layers and layers of fear to give the poor people what they needed. Poor people are just like any other human being. They are not different human beings.

I give the example of the Bonsai tree. I say take the seed of the tallest tree in the forest and plant it in a little flower pot and it only grows this much. Then you wonder what happened, what is wrong with the seed. There is nothing wrong with the seed. You didn't give it the space to grow. That's why it came out like that. Poor people are like Bonsai people. Simply society never gave them the space to grow. If society had given them the space they would be as tall as anyone else, their children would be as cheerful and achieving as anybody else. There is nothing wrong within the human body and within the human system.

As I go along I wanted to show that they were entrepreneurial so I started a program about five years back to lend money to the beggars. You can't be poorer than beggars. The message that we gave and the discussion that we had was as you go along, house to house begging, would you like to carry some merchandise with you? Some cookies, some candies, some toys for the kids as you visit the families... I said, 'You're going there anyway. It's not extra work for you.' And then they said right away, 'Yes!' So we started giving them loans and they started going there, initially very shyly saying they have something to sell and would the people be interested. And it became very popular. Everyone wanted to buy something from them because they are known as someone who always comes and begs for food, begs for money and so on but now she wants to sell so everybody supports her.

We thought we would have 1,000 maybe 2,000 beggars in the program and test out whether a beggar can be an entrepreneur. It became so popular we ended up with more than 100,000 beggars in the program. By now more than 20,000 beggars have stopped begging completely, they are very successful door-to-door salesmen. Others have become successful shopping agents because house-wives cannot always go to the markets sometimes so they get the beggars to go and bring them things and they get their cut and get good

business. Some have taken their first loan, paid it back and have taken out a second loan, third loan and so on.

So you see the progress in that. Again it gives a glimpse of human beings and what they can do if given an opportunity. All we did was open up the possibility that you can borrow money and add this business along with the other businesses. So that those that are not closing down their begging division yet, they want to be comfortable and know that this is a new business that they have and they're doing very well from it. So they will go through this testing and come to that conclusion.

I have been looking at problems as they come and try to see how to solve them. Now looking back, whenever I saw a problem my distinctive reaction was to create a business to solve the problem. So I keep on creating businesses. As I see a problem I see a business to solve the problem. In the process I have created many companies. People say that I must be a very rich man because I own so many companies. I say that I'm not a very rich man; I'm just a guy that I always was. People ask what I do with all these companies and I say that I don't own any single share of these companies because I never intended to make money out of those companies. That's not the purpose of those companies; the purpose of those companies was to solve problems.

Then I realised this is the kind of business that is missing in the world. When you look at the poor person you wonder why there is poverty. Is it because the people don't want to work, their illiterate or their ignorant? Is that why they are poor? Every time you see this woman that you meet in the village and you talk to her about what she does with the money you realise it is not her who is responsible for the poverty. It is the system that is responsible for the poverty. Poverty is not created by the poor person: poverty is created by the system we built. Concepts we have infused into ourselves and we feel so glorified that we have such a beautiful system, an enormously intricate system that we built – it is fantastic. It's not: that is what created all of these problems.

Poverty is an externally imposed phenomenon; it is not an internally created phenomenon. So once you see it's externally created, and then you go around and fix it up. If we fix the system, there will be no poor people because there is nothing wrong with the person.

So I look at it and decided what the things that are going wrong are? I identify the banks as an institution. Just as an example, let's look at the banks. They say that it cannot be done. You cannot lend money to poor people. That's why we created our own banks. Now after 35 years and the entire globe is running



without any problems. Why can't the banks extend themselves to cover everyone, why do they have to create an exclusive banking system? Nobody talks about that.

That's where we've gone wrong. We've created institutions that hear problems but who don't want to touch it anymore. I talk about the institutional framework, conceptual framework. Conceptual framework is looking at the way we have designed the economic framework. In the economic framework we assume that all human beings will do in business is make money. So money making is the mission of the business. Not only we say that but we go a little bit further. We say maximisation of profit is the mission of the business. Isn't this a misrepresentation of human beings in the economic interpretation of human beings? Because human beings are not kind of a 'robber-like' being where all you do is make money. Not a single dimensional being. Human beings are multi-dimensional beings. Making money is only one dimension. What about all of the other dimensions? Theoreticians picked the one aspect – selfishness among us; we all have selfishness in us for our self-preservation – and built a whole theory of economics on top of it. Forget that we have all these other dimensions, such as selflessness.

I keep repeating that every human being is a combination of selfishness and selflessness. At least you pay attention to the selfless part of it when you are designing this big edifice of theoretical framework. Economists say that if you want to be selfless and you want to do good for others, then step out of the world of business and become a philanthropist. I'm not talking about being a philanthropist, I'm talking about business and I want to be inside that business world and express my selflessness. How do you do that? I say, well, I knowingly have done that. I have created all of these companies not for myself but to solve problems.

We can build businesses on the basis of that principle, on the basis of selflessness, and I started calling them social businesses. These are businesses not for making money for their owners; these are businesses that solve intricate problems every day in a business way. What is wrong with that? It's a non-loss, non-dividend company to solve problems. Investors over time can take back the investment money but nothing more than that. Not because government has said that or they have made it a rule. No, you have decided that this is what you want to do.

So you can have two businesses. One is a profit-making business to make money. There is nothing wrong with that. But then you also have a social business so you want to solve problems. In a profit-making business

everything is for money. So the centre of attention is money in the profit-making business. In a social business everything is for others and nothing is for me – and I enjoy it.

Making myself happy by making money is good, I'm not opposed to that. But you are depriving yourself of another happiness, a happiness that comes from making other people happy. That is an enormous happiness but you have deprived us because we don't get a room or don't get a door through which you can enjoy that happiness. I said I wanted to open the door for happiness.

Nobody cared. They said, 'How can you do that without profit? Nobody is interested in it.' I said, 'I am interested in it. How can you say nobody is interested in it?' I said that if you put it in your textbook then young people will grow up discussing it. What should I do when I grow up? Should I be in profit-making, should I be in social business? If I am in a social business what is the problem? I would like to solve, and how do I design that business to solve those problems. This should be part of the growing-up process.

In the universities and business schools there will be two departments giving MBAs. In today's MBAs you train people so they can go out, work very hard so that the shareholders of the company can make a lot of money because you work for them, that's all you do. You have a good salary and you enjoy yourself but you are dedicated to somebody else, somebody making money. I said that MBA is fine, I'm not opposed to that.

Why don't we have another department giving social MBAs? You learn how to create a business to solve problems. Your everyday exercise in the classroom is, which problem are you looking for, how do you design it? If my design is better than yours than I get a better grade because I have a better solution for that. It is done in a business way too because money comes back.

People say they do this in charity all the time but I say there is a difference between charity and business. In charity money goes, it does the job and never comes back. If you can transform it into a social business: money goes, does the job and comes back. And you use the money again and again. You recycle the same money endlessly. It is a self-propelling machine when you build this business and it is sustainable. That gives you enormous capacity.

Luckily something happened and made the issue clearer. I had a chance meeting with the chairman of a multinational company called Danone. It is a French based company. During the discussion I said why don't we have a company jointly in Bangladesh? He agreed right away. Then I said, 'I'm not finished yet. It's going to be a social business.' He said, 'What is a social business?' So I gave him a big spiel about social business. He and I shook

hands and he agreed. I thought maybe he didn't understand the Bangladeshi English that I was talking or I didn't understand his French-English so we got lost on the way.

I was on the way to attend another conference in Doraville – it was a women's conference – and on the way I sent a long email to him summarising what we had discussed and what we should do. This immediately gave him a chance to say that maybe he did not understand me and to feel free to correct me if I might have given him the wrong impression. He immediately replied and said he understood every word; he agreed with it and let's go ahead with it [sic]. This was 2005, the company was created in 2006 and we went into production in 2007. This company has been in production for four years to solve the problem of malnutrition among the children of Bangladesh. Bangladesh has a population of 160 million people. Half the population is under the age of 21 – the median age – so you can see how many children there are. Almost half of them are malnourished. Almost 46 percent of the children of Bangladesh are malnourished.

So there are many efforts going on: some work, some don't work. So we said let's concentrate on this issue because it's the future of the country. If you are malnourished you are physically stunted, if you are malnourished you are mentally stunted. All the money you put into education does not get there because it does not catch what you are doing. So you need to get the receiving part well so that you can catch it and grow.

So we concentrated on that. What we did was to produce a special kind of yoghurt, because Danone is a yoghurt expert. We gave them this task: to produce a yoghurt that will solve this problem. We decided that we will put all the micronutrients that are missing in the children into this yoghurt. Vitamins, iron, zinc, iodine, everything, and we will make it very delicious because Danone knows how to make things delicious, particularly yoghurt.

So we started selling this yoghurt. Children love it, they eat it, it is very cheap so even the poorest child can afford it, and make a marketing system where even poor people can access it. If you put it in the store, the poor people don't go to the store to buy it. You bring it to their doorstep. Children follow this person who is bringing this yoghurt. So they like it. Now, studies have shown that nutrition is improving among the children who are taking it.

So this is all dedicated to that particular purpose: not making money for Danone, not making money for Grameen. We're all legally bound not to take any profit of this company. We can take back the investment but that's it. That's a social business.

Many other companies came to do the social business. We had a social business with Veolia to produce water in Bangladesh and Adidas to produce shoes affordable to the poorest person who walks barefoot. We challenged them to produce shoes for under €1. They were shocked. Adidas shoes under €1. They said this is a big task and I said Adidas is a big company! Why do you want to do a small task? You should be proud to do the big tasks. They took that challenge and it took them two years to produce those shoes. Now it is being marketed. We have a series of [inaudible], 'Grameen and Co' and so on.

All of these things that have happened to us, all of the crises, all of the problems that we have ended up with are because we went wrong in designing the system. It's a design fault that when you step down on the staircase you always stumble. This isn't always your fault. Someone miscalculated that one step and you stumble every time. That is what is happening. All of these crises put together are a giant wake-up call – but we don't want to wake-up. Come on, don't sleep. You can go back to sleep, you can fix it and stop the alarm but only for a while. It will keep on going and then it will explode.

We are coming to the end of our civilisation. This is what it's doing. We need a different kind of civilisation where we do not have all of these things that we have created. It is a mess. We have right now all of the information and all of the ability to redesign the whole system. It is a system where there will be no poor person because it's not in the person and a system where nobody will be called an unemployed person. What is this unemployment? An able bodied human being with creative power, unlimited power remaining totally unutilised: Is this the civilisation that we are bragging about? Does it make sense? It doesn't make sense to me. It's a total wastage.

Let us carry on. It's only 9 percent, it's only 5 percent and it's only 50 percent. Let's go ahead, we'll fix it. What happened to that 50 percent or 5 percent or 1 percent? They are human beings on this planet but because of this screwed up system they have to suffer. They are capable, they want to work. You can't find a way to make this work and you blame them for that. I feel ashamed if I am an unemployed person but why should I feel ashamed? Is it my fault?

So we have to go back and redesign the system that we have built so that our successes will be greater than what we have now. But the present civilisation's problems are so gigantic that we couldn't fix anything: poverty, diseases, the environment, you name it. We have to scrap that system. It's not

a question of Band-Aids. It's a total question of redesigning and recreating an entirely new civilisation. That's what we have to do. Thank you very much.