

AUTHOR OF THE NEW YORK TIMES BESTSELLER  
— *BANKER TO THE POOR* —

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## INTRODUCTION

# Social Business— From Dream to Reality

### Beginning with a Tiny Step

I first got involved in the poverty problem as an academician, and then personally, almost by accident. I got involved because poverty was all around me in Bangladesh. In particular, the famine of 1974 pushed me out of the university campus and forced me to become a social activist in addition to being a teacher.

This is a common experience, of course. In disaster situations, most of us without hesitation take up the social roles demanded by human compassion. But in my case what began in a time of crisis became a lifelong calling. I gave up my academic position and founded a bank—a bank for the poor.

It was the first step in a journey that continues to this day. The latest stage in that journey, as I'll explain in this book, is creating and realizing an idea for a new form of capitalism and a new kind of enterprise based on the selflessness of people, which I call social business. It's a kind of business dedicated to solving social, economic, and environmental problems that have long plagued humankind—hunger, homelessness, disease, pollution, ignorance.

Back in the early seventies, the newly independent country of Bangladesh was in a terrible state. The aftermath of our War of Liberation—

with the destruction caused by the Pakistani army—combined with floods, droughts, and monsoons to create a desperate situation for millions of people. Then came the famine. I found it increasingly difficult to teach elegant theories of economics in the classroom while a terrible famine was raging outside. Suddenly I felt the emptiness of traditional economic concepts in the face of crushing hunger and poverty. I realized that I had to be with the distressed people of Jobra, the neighboring village just outside of Chittagong University, and somehow find something to do for them. All that I hoped to do was make myself useful to at least one person per day.

In trying to discover what I could do to help, I learned many things about Jobra, about the poor people who lived there, and about their helplessness. I came face to face with the struggle of the poor to find the tiniest amounts of money needed to support their efforts to eke out a living.

In particular, I was shocked to meet a woman who had borrowed just 5 taka (the equivalent of around 7 cents in U.S. currency) from a moneylender and trader. She needed this small amount of money to buy bamboo, from which she crafted stools to sell. The interest rate on such loans was very high—as much as 10 percent per week. But still worse was the special condition imposed on the loan: She would have to sell all her products to the moneylender at a price he would determine.

That 5-taka loan transformed her into a virtual slave. No matter how hard she might work, she and her family could never escape from poverty.

To understand the scope of this moneylending practice in the village, I made a list of the people who had borrowed from the moneylenders. When my list was complete, it had forty-two names. These people had borrowed a total of 856 taka from the moneylenders—roughly U.S. \$27 at then-current exchange rates. It seemed absurd that such a small amount of money should have created so much misery!

To free these forty-two people from the clutches of the moneylenders, I reached into my own pocket and gave them the money to

repay the loans. The excitement that was created in the village by this small action touched me deeply. I thought, “If this little action makes so many people so happy, why shouldn’t I do more of this?”

That’s what I have been trying to do ever since.

The first thing I did was to try to persuade the bank located in the university campus to lend money to the poor. But the bank manager refused. He said, “The poor do not qualify to receive loans from the bank—they are not creditworthy.” I argued with him with no result. I met with senior banking officials at various levels to see if I could find someone who would be willing to open the doors of the bank to the poor. This went on for several months, but I couldn’t change their minds.

Finally, I came up with an idea. I offered to become a guarantor for loans to the poor. After much hesitation, the bank agreed to accept this proposal. By the middle of 1976, I started giving out loans to the village poor, signing all the papers the bank gave me to guarantee the loans personally and acting as a kind of informal banker on my own. I wanted to make sure that the poor borrowers would find it easy to pay back the loans, so I came up with simple rules, such as having people repay their loans in small weekly amounts, and having the bank officer visit the villagers rather than making the villagers visit the bank. These ideas worked. People paid back the loans on time, every time.

It seemed to me that lending money to the poor was not as difficult as was generally imagined. It even appeared to me that serving their financial needs might be a viable business. You’d think a smart banker would be able to recognize this opportunity quicker than a mere economics professor with no banking experience. But no. I kept confronting difficulties in trying to expand the program through existing banks.

Finally, with no other option, I decided to create a separate bank for the poor. It was a long, arduous process. But with the support of the then-finance minister of Bangladesh, I succeeded in creating a new



bank, a bank dedicated to serve the poor. We called it Grameen Bank—or “village bank,” in the Bengali language.

Today, Grameen Bank is a nationwide bank serving the poor in every single village of Bangladesh. Of its 8 million borrowers, 97 percent are women. Early in the history of the bank, we deliberately decided to focus on lending to women—initially as a protest against the practice of conventional banks, which refused to lend money to women even if they belonged to a high income bracket. We also saw that women in Bangladesh had the talent and skill to become income-earners. Our initial goal was to make sure we had both men and women borrowers in even numbers. But soon we discovered, through experience, that female borrowers brought much more benefit to their families than male borrowers. Children immediately benefited from the income of their mothers. Women had more drive to overcome poverty. Lending to women in the poor villages of Bangladesh, we realized, was a powerful way to combat poverty for the entire society.

Grameen Bank is unusual in other ways. It is actually owned by the borrowers, who in their capacity as shareholders elect nine of the thirteen members of the board of directors. Grameen Bank lends out over \$100 million a month in collateral-free loans averaging about \$200. The repayment rate on loans remains very high, about 98 percent, despite the fact that Grameen Bank focuses on the poorest people—those whom conventional banks still consider non-creditworthy.

Grameen Bank even lends money to beggars. They use the loans to enter the business of selling goods—toys, household items, foodstuffs—from door to door, along with begging door to door. Contrary to some people’s expectation, beggars like the idea of supporting themselves through sales rather than relying on charity. We now have over 100,000 beggars in this program. During the four years since this program was launched, over 18,000 have quit begging. Most of the beggars are now on their second and third loans.

Grameen Bank also encourages children of its borrowers to go to school, offering affordable loans for them to pursue higher education.

More than 50,000 students are currently pursuing their education in medical schools, engineering schools, and universities with financing from Grameen Bank.

We encourage these young people to pledge that they will never enter the job market to seek jobs from anybody. They’ll be job givers, not job seekers. We explain to them, “Your mothers own a big bank, Grameen Bank. It has plenty of money to finance any enterprise you may wish to float, so why waste time looking for a job working for someone else? Instead, be an employer rather than an employee.” Grameen Bank is in the business of encouraging entrepreneurship and self-reliance among the people of Bangladesh—not dependence.

Grameen Bank is financially self-reliant. All of its funds come from deposits. More than half of the deposits come from the borrowers themselves, who are required to save a little bit every week. They have a collective savings balance of over half a billion U.S. dollars.

All of this would be an impressive enough achievement based on the tiny spark that started it all—that \$27 worth of loans that I repaid for the poor people of Jobra. But the work of Grameen Bank in Bangladesh has turned out to be just the beginning.

Today the idea of small, collateral-free loans for poor women, known as “microcredit” or “microfinance,” has spread around the world. There are now Grameen-type programs in almost every country in the world. We even run a program named Grameen America in New York City. Its first branch was opened in Queens, New York, in 2008 to provide small collateral-free loans (averaging \$1500) to local women to start modest businesses or expand their existing businesses. Most of them are single mothers struggling to make a living with dignity.

Grameen America is now branching out to new locations in Brooklyn, New York, Omaha, Nebraska, and San Francisco, California. Its success demonstrates that even in the richest country in the world with the most sophisticated banking system, there is a huge need for banks dedicated to serving the unserved and underserved millions.

Why do I attach such importance to the idea of providing banking services to the poor? Partly, of course, because of the way I stumbled upon the role of the exploitative moneylenders in trapping people in poverty. But it's also because I have become increasingly convinced that poverty is *not* created by poor people themselves.

When I meet Grameen Bank borrowers, I often meet mother-daughter and mother-son pairs in which the mother is totally illiterate, while the daughter or son is a medical doctor or an engineer. A thought always flashes through my mind: This mother could have been a doctor or an engineer, too. She has the same capability as her daughter or son. The only reason she could not unleash her potential is that the society never gave her the chance. She could not even go to school to learn the alphabet.

The more time you spend among poor people, the more you become convinced that poverty is not the result of any incapacity on the part of the poor. Poverty is not created by poor people. It is created by the system we have built, the institutions we have designed, and the concepts we have formulated.

Poverty is created by deficiencies in the institutions we have built—for example, financial institutions. These banks refuse to provide financial services to nearly two-thirds of the world's population. For generations they claimed it could not be done, and everybody accepted that explanation. This allowed loan sharks to thrive all over the world. Grameen Bank questioned this assumption and demonstrated that lending money to the poorest is not only possible but profitable.

During the global financial crisis that began in 2008, the falsity of the old assumptions became even more visible. While big conventional banks with all their collateral were collapsing, around the world microcredit programs, which do not depend on collateral, continued to be as strong as ever. Will this demonstration make the mainstream financial institutions change their minds about their traditional definition of creditworthiness? Will they finally open their doors to the poor?

I am quite serious about this question (although I know all too well what the likely answer is). When a crisis is at its deepest, it can offer a huge opportunity. When things fall apart, we can redesign, recast, and rebuild. We should not miss this opportunity to convert our financial institutions into inclusive institutions. Nobody should be refused access to financial services. Because these services are so vital for people's self-realization, I strongly feel that credit should be given the status of a human right.

That poverty is created not by poor people but by their circumstances tells us something else important—something about the potential of human beings themselves.

Every human being is born into this world fully equipped not only to take care of himself or herself, but also to contribute to the well-being of the world as a whole. Some get the chance to explore their potential, but many others never get the chance to unwrap the wonderful gifts they were born with. They die with those gifts unexplored, and the world remains deprived of their contribution.

Grameen has given me an unshakeable faith in human creativity and the firm belief that human beings are not born to suffer the misery of hunger and poverty. Poverty is an artificial, external imposition on a person. And since it is external, it can be removed.

We can create a poverty-free world if we redesign our system to take out its gross flaws which create poverty. We can create a world in which the only place you would be able to see poverty is in poverty museums. Someday, schoolchildren will be taken to visit these poverty museums. They will be horrified to see the misery and indignity that innumerable people had to go through for no fault of their own. They will blame their ancestors for tolerating this inhuman condition for so long—and rightly so.

To me, poor people are like bonsai trees. When you plant the best seed from the tallest tree in a tiny flowerpot, 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 you gave it is inadequate. Poor people



are bonsai people. There is nothing wrong with their seeds, but society never gave them the proper base to grow in. All it takes to get poor people out of poverty is for us to create an enabling environment for them. Once the poor can unleash their energy and creativity, poverty will disappear very quickly.

### The Concept of Social Business

I took my first step in the direction of helping poor people in the mid-seventies. While poverty has remained my main concern since then, I have moved on to other issues because I've found them very relevant to my main concern. Over time I've become involved in agriculture, livestock, fisheries, renewable energy, information technology, education, health, hand-loom textiles, employment services, and many similar areas and sub-areas under them. Each one, I thought, could help overcome poverty if designed in the right way. For each sector or sub-sector I created a company to see whether I could address the problem of poverty in a sustainable way. Poverty is a state of living. It has many facets. It has to be approached from many directions, and no approach is insignificant.

While trying out all these approaches, I saw myself moving from one level to another level of my conceptual framework. I moved from microcredit to a much broader concept, which neatly includes microcredit itself. This new concept will bring a fundamental change in the architecture of our capitalist economy by bringing it closer to a complete and satisfactory framework, freeing it from the basic flaws which lead to poverty and other social and environmental ills. This is the concept of *social business*, which is the subject of this book.

Let me return for a moment to the financial crisis of 2008–2009. Unfortunately, media coverage gives the impression that once we fix this crisis, all our troubles will be over: The economy will start to grow again, and we can quickly and comfortably return to “business as usual.”

But even if it were desirable, business as usual is not really a viable option. We forget that the financial crisis is only one of several crises threatening humankind. We are also suffering a global food crisis, an energy crisis, an environmental crisis, a healthcare crisis, and the continuing social and economic crisis of massive worldwide poverty. These crises are as important as the financial one, although they have not received as much attention.

Furthermore, the media coverage may give the impression that these are disconnected crises that are taking place simultaneously, just by accident. That's not true at all. In fact, these crises grow from the same root—a fundamental flaw in our theoretical construct of capitalism.

The biggest flaw in our existing theory of capitalism lies in its misrepresentation of human nature. In the present interpretation of capitalism, human beings engaged in business are portrayed as one-dimensional beings whose only mission is to maximize profit. Humans supposedly pursue this economic goal in a single-minded fashion.

This is a badly distorted picture of a human being. As even a moment's reflection suggests, human beings are not money-making robots. The essential fact about humans is that they are multidimensional beings. Their happiness comes from many sources, not just from making money.

And yet economists have built their whole theory of business on the assumption that human beings do nothing in their economic lives besides pursue selfish interests. The theory concludes that the optimal result for society will occur when each individual's search for selfish benefit is given free rein. This interpretation of human beings denies any role to other aspects of life—political, social, emotional, spiritual, environmental, and so on.

No doubt humans are selfish beings, but they are selfless beings, too. Both these qualities coexist in all human beings. Self-interest and the pursuit of profit explain many of our actions, but many others make no sense when viewed through this distorting lens. If the profit