

The Royal Society of Edinburgh

An audience with Professor Muhammad Yunus

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Report by Peter Barr

The secret of super happiness?

“Neither a borrower nor a lender be,” wrote Shakespeare, but Professor Muhammad Yunus has turned this famous saying on its head by creating a new kind of bank for the poor, in which the borrowers (almost exclusively women) have now become the lenders. Not content with revolutionising the modus operandi of banking, and winning a Nobel Peace Prize in the process, Yunus has gone on to found a string of social businesses which focus on energy, telecoms, sanitation, water and health, and is perfectly happy for companies not to make profits as long as they solve social problems – and make people happy.

“Every time I see a problem, I create a business to solve it,” said Yunus. And when he founded Grameen Bank in Bangladesh just over 40 years ago, the problem Yunus faced was poverty and the failure of the financial system.

“The financial system is the root of all problems,” he said. It fails the poor in Bangladesh and denies access to money for unemployed people in Scotland who want to set up their own businesses, but micro credit can be the solution and has already lifted millions of people out of poverty in countries all over the world.

How micro credit evolved

When Bangladesh became independent in 1971 after nine months of war, Yunus was teaching economics in the US, and decided to go home to Bangladesh to do what he could for his country. He had no intention of becoming a banker, but circumstances drove him towards this – hundreds of thousands of people had died in the famine which followed independence, and the economy was ruined.

“All my elegant economic theories meant nothing for the people who were dying,” said Yunus, who was not only angry but also felt useless, and decided he had to do something about it. His response was to go out into the villages (like the village where he had grown up) to make himself useful, even if it only meant helping one person a day. And as he studied what was happening, it soon became clear that the poor were getting poorer because of the financial system and the fact that the banks would not lend to the poor, abandoning them to the loan sharks. “So, why not lend money?” he thought. And it worked.

Then his money ran out.

Yunus then approached the banks to borrow some money, and they said he was crazy – they would not lend to the poor because the poor had no collateral. The banks, said Yunus, were designed to lend to people who already had money. “And the more they laughed, the more I got angry,” he added.

In addition, the banks would not contemplate lending to women. If a woman asked for money, the response was to ask her to bring in her husband.

Yunus then became a guarantor and continued to lend people money, but he started to worry the project would fail and decided to start his own bank, which took three years to set up and opened for business in 1976. Forty years later, Grameen Bank operates in 80,000 villages in Bangladesh and has 2,600 branches and 8.5 million borrowers, 97% of them women who have used the

loans to start new businesses. Micro credit has become a global phenomenon, but when Yunus first suggested setting up a bank in the US, once again he was told he was crazy – and once again, he proved the doubters wrong, with help from an investor who believed in the project. In 2008, Grameen America opened a branch in New York, and since then it has spread to other cities, with 18 branches serving 70,000 customers, each borrowing about \$700–1,200 – with a repayment rate of 99.5%, without any lawyers involved. “It is all based on trust,” Yunus said. Every branch of Grameen Bank is self-sufficient and the global network turns over \$2.5 billion a year. “The borrowers now own the bank,” Yunus added. And the model is a “doorstep banking” system, taking the bank to the villagers and dealing face to face.

The birth of social business

This radical approach to the financial system has since encouraged Yunus to set up a string of new companies, all designed to solve problems facing the world's poorest people, and benefit the planet as a whole by improving health, reducing the dependence on welfare and focusing on sustainability in terms of both environment and economics.

One of the first health-related problems Yunus addressed was night blindness, which once affected half a million children in Bangladesh. The condition is caused by a deficiency of Vitamin A, but rather than prescribe pills, Yunus and his partners started selling inexpensive packets of seeds so the children would get what they needed from fresh vegetables. The seed business grew very quickly and became self-sufficient, becoming Bangladesh's leading supplier – and night blindness now is a thing of the past.

Next, Yunus started a company building new toilets, to improve sanitation. At first, there was no money available for the new venture, so Grameen Bank asked customers to dig a hole before they talked business, then set up a company to market the toilets, which are now installed in villages throughout Bangladesh.

Health insurance also gained attention from Yunus, and Grameen set up a scheme selling insurance to families for \$4 a year, and setting up new clinics in the villages, trying to make sure they covered their costs. After ten years, this venture faced a new problem – a shortage of doctors, attracted to better-paid government jobs in the cities. Yunus later explained in the Q&A session which followed that the only solution to this was to set up new medical schools.

Another issue in Bangladesh is the reliance on expensive, dirty kerosene lamps, so Yunus set up a new renewables company called Grameen Energy to provide a solar energy alternative. At first, he was told solar panels were far too expensive for the Bangladesh market, but Yunus said, “Give me the technology, not the economics,” and ignored the advice. Most customers were sceptical at first, thinking the lamps were a trick – how could the lamps run on sunshine? But sales increased from three or four a month to 1,000 units per day thanks to a persuasive new sales pitch: “Pay us the same per month you now spend on kerosene, and in three years, you will own the lamp and not need to pay any more for the rest of your life.”

Drinking water is another major problem in developing countries, including Bangladesh, where river pollution and contamination of underground streams by arsenic are terrible problems. Even though people are not used to paying for water, Yunus has set up a company delivering water to villages throughout the country, helping to reduce the effects of water-borne diseases while setting up new businesses to service the network.

Educational loans have also had a big impact on Bangladesh, enabling poor students to gain better qualifications. Ironically, said Yunus, this can be a problem for some of the students who wonder why they can't get jobs, despite this. Yunus explained that it's common to pay bribes to get a job in Bangladesh, but he believes jobs are old-fashioned and rapidly becoming obsolete – why don't young people start their own businesses, just like their mothers? “Be a job creator, not a job seeker,” he tells them. “If you have a job, you'll never create a job. And that will be the end of creativity – jobs are robotic and repetitive, and even inhuman.” All of us are born entrepreneurs, Yunus added. The mothers who borrowed to start their own businesses (and were scared to death because they feared they would never be able to repay their loans) can teach their children much about entrepreneurial skills. They know what it is like to borrow a few precious dollars and pay it

back, then borrow more, until their businesses succeed. “What good is education if your illiterate mother is way ahead of you – she should be your business consultant. And you will make it 20 times bigger and better because you have had the advantage of a good education.”

To match his words, Yunus has also set up a social business fund for borrowers' children, and hundreds of thousands of young people have taken advantage. “People should be entrepreneurs,” added Yunus. “And if they fail once, give them all a second chance.”

Human profit

Just as he promotes environmental sustainability, so Yunus supports sustainability in business, and believes that charity is not the answer because it sends its money out and never gets it back. For him, a social business is like a charity that has a business engine behind it, so you can use the same money over and over again.

For Yunus, the prime motivation has never been profit, and he questions why business should always make money – departing from the academic world in the process. Social businesses are problem-solving enterprises, Yunus explained. Investors get back their original stake but don't receive a dividend – all profits are reinvested. “I don't agree that profit is the only incentive,” he added. “For many people, making money equals happiness; but for me, making other people happy equals super happiness!”

This philosophy does not prevent Yunus from partnering with leading multinationals, if it leads to a win–win result. For example, he persuaded Danone to start a new company in Bangladesh, selling a new, low-cost yoghurt containing the essential ingredients to prevent malnutrition – which used to affect almost 50% of all children. “I was suspicious,” said Yunus, “because they agreed so quickly,” but Grameen Danone Foods has proved highly successful, selling its solution via a nationwide network of saleswomen. (More details in the Q&A below).

The secret of “super-happiness” for Yunus is not just to put a smile on his own face, but to multiply the sum of human happiness by helping people help themselves so they can fulfil their potential.

As an academic, he believes he had a bird's eye view of the economy and couldn't see what was really happening – it was all imagination and theory. When he came down to Earth in the village, he could see things more clearly and make better decisions, based on his “worm's eye view” of the village. “It may conflict with economic theory,” he said, “but if it works...”

Yunus then concluded by describing what he calls his “Triple Zero” objectives – zero poverty, zero unemployment and zero carbon emissions. The United Nations aims for zero poverty by 2030, he said, and he looks forward to the day when people visit poverty museums and even the word ‘unemployed’ has become unemployed. Some countries hide their poverty and others display it. Welfare helps for a while, but generational welfare and charity make it worse over the long term. “Human beings are go-getters and problem-solvers,” he continued. Banks should give people a chance.

Yunus describes himself as “a fugitive from the academic world, a banker to the poor and an entrepreneur,” but like the innovative businesses he has created, he continues to rewrite the rules of economics, politics and business.

Q&A:

Q: Where do you source the safe water?

A: We treat the water using Ultra Violet (UV) rays then deliver it via a network of pipes, and local women charge for it at the taps where people collect it. Some people pay for new plumbing connections. (In future, it may be possible to use special bottles which sterilise the water using sunlight.)

Q: *How do you make the social business model acceptable to shareholders?*

A: When we first announced the Danone deal, some reporters asked me, "Are they using you?" But I replied, "I thought I'm using them!" I also told the journalists to tell other people to use me, if it was for a good cause.

When we founded Grameen Danone Foods, both partners agreed to fund it with \$500,000 each. A few months later, Danone had not paid in the money, and when I asked them why not, they told me that their lawyers had objected because they had a mandate to maximise their profits for shareholders – not use it to invest and pay no dividend. So, four months later, Danone wrote to their shareholders and explained that we were trying to address the malnutrition problem in Bangladesh and asked them to donate a percentage of their dividend to the new venture. And 98% of them agreed, raising a total of \$35 million. The second problem was employees, who felt like second-class citizens and asked Danone, "Why didn't you ask us as well?" And this raised \$30 million more, creating a total fund of \$65 million, which continues to grow and has since been used to set up social businesses in eight different countries.

Q: *How have you addressed the problem of not enough doctors and nurses?*

A: In Bangladesh, we used to have three doctors per nurse, so to address this shortage, we set up a new nursing college in partnership with Glasgow Caledonian University. Bangladesh needs nurses but worldwide, there are 100,000 vacancies for nurses, so we could even export our nurses. We have also set up special hospitals for eye care, treating cataracts, charging small fees to patients and cross-subsidising the fees for the poorest. All these ventures are social businesses which aim to break even within a few years. As soon as this happens, they re-invest the money – for example, the first hospital sets up a second, and when this breaks even, it sets up a third, and so on. There are still not enough doctors, however, so now we're setting up a medical college.

Related to this, technology can do wonders for health. "Phones are the Aladdin's lamps – releasing the digital genie." Grameen Phone is the No1 provider of mobile phones in Bangladesh, with 50% of a market of 125 million subscribers. Phones will be used more in future for delivery of healthcare – e.g., monitoring temperature and heart rate, and doing eye scans. These "smart doctors" will shift the emphasis from cure to prevention, thus reducing overall health costs.

Q: *Is the welfare state not different in developed and developing countries?*

A: In some developed countries, welfare accounts for about 30% of GDP. But the bigger issue is that 1% of the world's population owns 50% of the wealth, and the worst thing is that this is getting worse. The wealth gap is a "ticking time bomb," but governments writing cheques is not the solution. If there were more entrepreneurs, we could close the gap, reverse the trend and cease to be wage slaves. Entrepreneurship is a great equaliser. Welfare was a good idea, but is not a long-term solution – it destroys human capacity. In the US, people on welfare have to declare any loans, and every dollar they make means a one-dollar cut in their welfare. "People on welfare are prisoners," but we should leave the doors open. Human beings are built to take care of themselves. Welfare is important, but not if it keeps you a prisoner forever. People need a chance in life, and 8.5 million customers in Bangladesh means that Grameen Bank connects every family. And 200 million worldwide have used micro-credit to start their own businesses. Borrowers don't just pay back their loans – they own the bank. What started off as small savings has now grown to billions of dollars and the borrowers have now become the lenders.

The Vote of Thanks was offered by Professor Tariq Durrani OBE FRSE.

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