

Social Business, Grameen and Microfinance

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Excellencies, distinguished moderators, panelists and participants.

I feel honored to be here with you. I consider this as an opportunity for learning. Given the deliberations of the day and given the discussions on different aspects of the issues related to the Business Ethics and the Corporate Social Responsibility (CSR), we find that CSR is gradually gaining ground in the business world. It is about the human connections and relationships for making a better business and building a better world.

Business can be seen in different forms and can be known in different names. Whatever is the form or name of the business, the business should be profitable in order to be sustainable. According to Nobel Laureate Milton Friedman the goal of a company is to maximize profit as long as it is doing so legally and ethically. The question is whether business should consider only the maximization of profit or should have other considerations as well. Should it follow business ethics, should it be socially responsible or could it have maximizing social benefit as a major objective of its operation.

The world at present is witnessing an unprecedented growth in terms of technology, trade etc. This is a place of luxury for many but at the same time a planet of suffering for innumerable human beings due to lack of adequate income, education, healthcare, housing and others. According to an estimate, 90 percent of the world income goes to 40 percent of the people, while other 60 percent live only on 6 percent of

world income. It is not only the skewed distribution of world income but also the concentration of world wealth in few hands that are matters of great concern for all. According to a report, in 2000, the top 1 percent of the world's population accounted for about 40 percent world's total net worth. Whereas, the bottom half of the population owned merely 1.1 percent of globe's wealth.

It is very unfortunate that about 1.2 billion persons around the world live on a dollar a day or less and tens of millions of children worldwide are locked out of school, as their parents cannot afford to send them to school. More than a million children die of diarrhea because their families lack access to clean water.

How to address this problem? Given the failure of national and local governments in addressing these and other such problems in many countries, many NGOs, business persons / houses and others are coming forward to solve this in their own ways.

The question is whether charity or philanthropic approach a lasting solution to this? Many think that this is not. One possible solution has been to involve the businesses into this. As evident, there is a growing concern in business and also growing pressure on business to play a role in social issues. The Corporate Social Responsibility and Business Ethics debate and discussion is a clear demonstration of that concern. It is also a manifestation of the fact that there are more things that should be taken care of in order to meet the challenges associated with CSR program management and make it more effective and rewarding. CSR program should be channeled to a sustainable solution.

In recent years the concept of social entrepreneurship has become popular in both business and non- business world. This is about applying practical, innovative and sustainable approaches to benefit society in general with a focus on the poor. Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems. Social mission is central and explicit to them. As business entrepreneurs change the face of business, social entrepreneurs as the agents of social change seize opportunities that are missed by others. They invent new approaches, improve systems and develop sustainable solutions to change society for the better. They are mission driven and result oriented.

According to Nobel Laureate Muhammad Yunus, any innovative initiative whether economic or non-economic, to help people may be described as social entrepreneurship. He promotes the concept of social business and distinguishes it from the concept of social entrepreneurship. According to him all those who are in social businesses are social entrepreneurs but all social entrepreneurs may not be engaged in social business. He defines social business as a non-loss, non-dividend business. It aims at maximizing social benefit. It is for doing good to people. It is different from the business, which is devoted to maximizing profits and private gains.

The people engaged in social business are driven by social objectives. They want to achieve their objective by creating and/or supporting a special kind of business enterprise. Like any other business, this business should not incur loss. Earning dividends at any cost will not be the motivating factors for the investors who want to be in this

business. It is a new class of business. It is unlike charity or NGO programs that are dependent on charitable donations, foundation grants or government support for their existence and expansion. Any social enterprise that cannot cover its cost fully can not be called a social business. To be in the category of social business there should be full cost recovery on a sustainable basis.

Profit earning is important for social business. It should earn profit for two reasons. To pay back to the investors and to reach the long-term goals. Like profit maximizing business, social business needs to have a long-term road map. By making profit it can expand its business, improve the quality of goods and services, improve efficiency, undertake research and development activities, introduce new technology, make innovations in marketing and other areas to reach low income people.

A social business does not pay profits or dividend to the investors. It pays back to the investor all the money she or he has invested.

Although there may be several versions, Muhammad Yunus proposes two kinds of social business in the context of present day world:

1. "Companies that focus on providing a social benefit rather than on maximizing profit for the owners, and that are owned by investors who seek social benefits ensuring collective safety, security, economic development, social justice, global sustainability etc., as well as, for psychological, emotional, and spiritual reasons, rather than financial reward."

2. "Profit- maximizing businesses that are owned by the poor or disadvantaged. In this case, the social benefit is derived from the fact that the dividends and equity growth produced by Profit Maximizing Business will go to benefit the poor, thereby helping them to reduce their poverty or even escape it altogether."

In the first case, it is the nature of the products and services that generates social benefit.

There may be many examples for this. One example may be the Grameen Danone collaboration that has taken initiative to produce and market nutritious food and beverage products for malnourished children in Bangladesh. It is a non-loss, non-dividend business. The investors are investing out of their social commitment and are entitled to take their invested money back if they want. It is their decision whether they will reinvest this in the same or other social business or invest in some profit maximising business or just spend it for any other purposes.

Grameen Bank can also be cited as another example of social business. It came into being as a private initiative. It is the inner urge that worked as a driving force for Muhammad Yunus. He took the initiative and then succeeded in developing a sustainable microfinance system that brought financial services to the doorsteps of the poor, especially to the poorest women who were always considered unbankable. It came into being as a result of feeling for suffering human being, continuous thinking and innovative efforts.

Grameen Bank provides microcredit to the poor without any collateral. It is based on trust. It has a very transparent operational system. It does not require the borrowers to sign any legal document or provide any group guarantee. The clients are the shareholders of this bank. They own 94% of the shares. The bank provides collateral free loans to the poor to engage themselves in income generating activities and for housing, microenterprise, education and mobile phones to become village phone ladies.

The village phone ladies of Grameen who provide cellular pay phone services to the neighborhood do not only earn more, but also enjoy a gracious social status. Cellular phones has created a new class of women entrepreneurs who have been able to move out of poverty. It has also improved the livelihood of farmers and others who have got access to critical market information and lifeline communications previously unattainable in the villages of Bangladesh.

Many Grameen students are attending universities, business, engineering and medical schools. Upto the end of April 2007, more than 16000 students received higher education loan and about 50000 students got scholarships from Grameen. Grameen is supporting the second generation to become educated, innovative, forward looking and a new class of entrepreneurs with new ideas and new goals.

Grameen Bank started a microcredit program in later 2002 exclusively for the beggars in Bangladesh. The program is known as the Struggling Members Program. This is an initiative taken by Grameen Bank both to challenge a sustained campaign that microcredit cannot be used by the people belonging to the lowest rung of poverty, as well

as to reinforce Grameen Bank's belief that credit should be accepted as a human right. Upto the end of April 2007, Grameen provided financial services to more than 83000 beggars. A few thousands of them have already left begging and become members of the mainstream microfinance.

Grameen Bank offers attractive saving and insurance products as well as pension funds for its members. It earns profit and at the same time has positive impact on the lives of its borrowers and their families. 64 percent of Grameen families have crossed the poverty line. Grameen is now serving more than 7 million borrowers in Bangladesh and supporting their entrepreneurial skills. It has replication partners worldwide. Grameen Trust is responsible for supporting Grameen Bank Replication Programs (GBRP) in any part of the world.

The important role of microfinance in fighting poverty is now well established worldwide. It is a financial system that serves the poor with financial services in a most effective, productive and sustainable way. Microfinance is designed with the poor in mind while at the same time it is founded on market principles of competitiveness, pricing and sustainability. It also contributes to the development of social business. Consider the case of Grameen Danone Foods as an example of this. Danone and four sister organizations of Grameen Bank (Grameen Byabosha Bikash, Grameen Kalyan, Grameen Shakti and Grameen Telecom) have invested in this joint collaboration. Provision of microfinance plays a very important role in each of the stages of yogurt production of Grameen Danone Foods in Bangladesh starting from buying milch cows and running dairy farms by the poor in the village to marketing the product. To have the capability of providing

their children nutritional food, poor consumers need to engage themselves in income generating activities, which they can only if they have access to micro loans.

If companies like Grameen Danone Foods can be established with the investment of those who are committed to make a difference in the society, the people at the bottom half of the pyramid will be truly benefited. If institutions like Grameen Bank can be created not only in the area of microfinance but also in other areas (health, housing, nutrition etc) with the ownership of the poor and the disadvantaged, the world will definitely be a better place in terms of prosperity and peace for all. There may be other versions of social business of both hybrid and pure types and the investment in this business may come from existing companies, foundations, donors, governments, individuals and others. Muhammad Yunus believes that the concept of social business is so powerful that it can really change the world. Let's make it a reality!