



Muhammad Yunus, Banker to the World's Poorest Citizens, Makes His Case

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Last year, a panel of judges from Wharton joined with Nightly Business Report, the most-watched daily business program on U.S. television, to name the 25 most influential business people of the last 25 years. On that list was Muhammad Yunus, managing director of Grameen Bank in Bangladesh and a pioneer in the practice of microcredit lending. Grameen Bank received formal recognition as a private independent bank in 1983 and, as of this month, had dispersed close to \$5 billion in loans to four million borrowers, 96% of them women. Grameen's strategy is to offer miniscule loans to very poor people, giving them the means to generate income and work their way out of poverty. Yunus was featured in a book entitled, *Lasting Leadership: Lessons from the 25 Most Influential Business People of Our Times*, co-authored by Knowledge@Wharton and Nightly Business Report. He was recently interviewed by NBR's Linda O'Bryon while attending the World Health Congress in Washington, D.C.



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NBR: You have been credited with inventing the microcredit movement more than 30 years ago. Why did you go in that direction?

Yunus: I had no idea that I would ever get involved with something like lending money to poor people, given the circumstances in which I was working in Bangladesh. I was teaching in one of the universities while the country was suffering from a severe famine. People were dying of hunger, and I felt very helpless. As an economist, I had no tool in my tool box to fix that kind of situation.

NBR: So what gave you the idea to give people tools?

Yunus: While I traveled around the country, I told myself, 'As a person, forget about the tool box. As a human being, I can go out and be available to help another person.' So that's what I started doing. This was back in 1974. I saw how people suffered for a tiny amount of money. They had to borrow from the moneylender, and the moneylender took advantage of them, squeezed them in a way that all the benefits passed on to the moneylender and none remained for the borrowers. So I made a list of people who needed just a little bit of money. And when the list was complete, there were 42 names. The total amount of money they needed was \$27. I was shocked. Here we were talking about economic development, about investing billions of dollars in various programs, and I could see it wasn't billions of dollars people needed right away. They needed a tiny amount of money. This was in 1976.

NBR: I understand some of the money was for a bamboo furniture maker?

Yunus: That's right. She was making bamboo stools and earning only two pennies a day. I couldn't believe that someone could make only two pennies for crafting such beautiful stools. After a discussion with her I found out she had to borrow money to buy the bamboo, which cost only 25 cents. But she didn't have the 25 cents. So she had to borrow it from the trader, who agreed to lend it to her on the condition that she sell the bamboo stool to him when it was finished at a price that *he* decided.

NBR: So how was your plan different?

Yunus: I wanted to give money to people like this woman so that they would be free from the moneylenders to sell their product at the price which the markets gave them -- which was much higher than what the trader was giving them.

NBR: But even then you charged interest.

Yunus: Oh yes ... Definitely, yes.

NBR: And why is that? What was the thinking?

Yunus: I thought if you do things in a businesslike way, then the project can become as big as you want it to because you are earning enough money to cover all your costs. You are not dependent on anybody. You are not dependent on a limited supply of capital. This is business money. Business money is limitless. And then, you can reach out to many more people than you would otherwise do.

NBR: So this is not charity?

Yunus: This is not charity. This is business: business with a social objective, which is to help people get out of poverty. Other banks were not giving loans to these people.

NBR: So how did you get from that first \$27 to working with Grameen Bank and expanding this around the globe?

Yunus: The villagers got very excited that I gave them the money. To them, it was like a miracle. Seeing this, a question came to my mind. If you can make so many people so happy with such a small amount of money, why shouldn't you do more of it? Why shouldn't you reach out to many more people? I could do this by linking these people with a bank that could lend them the money. So I went to the bank and proposed that they lend money to the poor people. The bankers almost fell over. They couldn't believe what had been proposed to them. They explained to me that the bank cannot lend money to poor people because these people are not creditworthy. So a long series of debates began with me and the banking system. Finally, I resolved it after about six months by offering myself as a guarantor. I said, 'I will sign the loan papers. I will take the risk, and you give the money.' I got the money and gave it to the people. And luckily for me, all the people paid it back. The banks had been saying that I would never get the money back and would ultimately have to pay it back myself. I said, 'I don't know anything. Let me try it out.' And I tried it, and it worked.

NBR: Has it continued to work?

Yunus: Yes, and we expanded it from village to village. But we still saw that the banks weren't changing their minds even after I had demonstrated that there was no risk to the process, that banks could do better by giving money to poor people, who were paying it back, than to rich people, who were not paying it back.

NBR: Poor people were paying the money back [more reliably] than rich people?

Yunus: Much better than rich people. Because Bangladesh has a tradition of rich people who borrow money from the big banks and hardly pay it back.

NBR: That's pretty startling.

Yunus: Very startling, yes.

NBR: You have said that you loaned primarily to women. Why is that?

Yunus: It has to do with the decision to have a separate bank for the poor people. From the beginning, I had complained about the banking system on two grounds. One complaint was that the banking system was denying financial services to the poor people through certain rules it had set up. The second allegation was that the banking system also was not treating women fairly. If you look at the gender composition of all the borrowers of all the banks in Bangladesh, not even 1% of the borrowers happen to be women. I said this is a very gender-biased organization. So when I began, I wanted to make sure half the borrowers in my program are women so that they are even. I did that. It was not easy because women themselves didn't think that they should borrow money. I had to do a lot of convincing. I encouraged them to believe that they can borrow money and make money. Part of that effort was to overcome fears -- cultural fears -- and the fact that they had never had any experience with business and so on. Soon we saw

that money going to women brought much more benefit to the family than money going to the men. So we changed our policy and gave a high priority to women. As a result, now 96% of our four million borrowers in Grameen Bank are women.

NBR: So you say you have four million borrowers. How much money over time have you loaned out?

Yunus: If we start with that \$27, and you add on all the money that we have loaned, it's nearly \$5 billion that we have given over time. Now we have come to a stage where every two years we are giving \$1 billion. So half a billion dollars a year. That's the stage we are in.

NBR: And this keeps funding itself because of the interest that's being paid?

Yunus: That's right. We take the deposits and we offer the depositors good interest rates. The money we lend to the borrowers makes a profit for the bank.

NBR: While people say that your program works well, some also say that it tends to focus on the top tier of poor people. How do you respond to that -- the criticism that it doesn't get to the people who really need such basic things as food and shelter?

Yunus: Grameen Bank helps poor people of all classes, of all types. Bottom, middle, and higher levels. Our work started with \$27 to 42 people. Although we say we can work with all levels, and Grameen Bank is an example, still people don't pay attention to what we do. They just say, 'Oh no. Microcredit. It's not doing the right thing, focusing only on the upper level of poor people.' So last year we started to focus on the beggars. Our argument is you can't be poorer than beggars. That's the last stage of your survival. You go around and beg for food, collect rice, cook it at home and then eat. That's your daily survival ration. So we are interested in them. We are saying, 'Look, as you go house to house, would you carry some merchandise with you -- some cookies, candies, toys for the kids and so on -- to sell?' People love that. We thought initially we would have 4,000 to 5,000 borrowers in that program, but as the year ended we had more than 26,000 beggars. They are very happy because they have seen that when they go to houses which have never opened their front door to them, that door is now open. The beggars show their merchandise and they are given a stool to sit on, which they never had before. The beggars not only sell but also get respect from the families.

NBR: We have recently seen elections in Iraq for the first time. Self determination is the hope there. In a sense, is that what your program does? It changes people?

Yunus: Definitely. Actually, if you look at it one way, the microcredit we give to the women is a tool to explore one's self, how much capacity that is stored up inside: 'I never knew that I had the capacity. That creativity. That ingenuity. To make money to express myself. So that money gives, for the first time, an occasion for me to find out how much I can do.' When you were successful in the first round, when you took tiny amounts -- \$30, \$35 -- and went into business and paid back the loan, you are now much more equipped to do better. Bigger. So you ask for a \$50 loan, a \$60 loan, because you think you can do bigger business and more challenging business than when you first took out an easy loan.

NBR: It gives you that self confidence.

Yunus: That self confidence. And if you go through 10 rounds and 15 rounds you are ready for a much bigger challenge than you thought. We introduced information technology into the system. We created a cell phone company called Grameen Phone and brought the phone into the villages of Bangladesh. We gave loans to the borrowers to buy a cell phone and start selling phone service. It became a growing business. Now that they are already confident business women, they can very easily come into a business which they never heard of before. They never saw a telephone in their life but they accepted it as a business idea, and there are now more than 100,000 telephone ladies all over Bangladesh doing good business and connecting Bangladesh with the rest of the world.

NBR: Do they use the telephone in their business, or is this a business itself?

Yunus: It's a business itself. If I have a phone, since nobody else has a phone, they have to come to me to use it. They make a call and pay. It's like a public telephone call office. The owner of the phone becomes

a one-person public phone office.

NBR: So it's the newest technology for people who have never had a telephone or anything like that.

Yunus: That's right. People complain that microcredit will let these women raise only chickens and cows and nothing else, that they are always stuck with primitive technology and don't have the capacity to move up to a new technology. So this is again a demonstration. Give them a chance to pick up state-of-the-art technology.

NBR: And your program has gone beyond Bangladesh? Are you everywhere in the world?

Yunus: To our knowledge, our program is running in more than 100 countries, some in a big way, some in a small way. And more and more countries are joining in each year, each day.

NBR: Africa is one area of interest. Have there been any special, noteworthy cultural issues there one way or the other?

Yunus: There are cultural issues everywhere -- in Bangladesh, Latin America, Africa, wherever you go. But somehow when we talk about cultural differences, we magnify those differences. To me, after all this experience, I see there are 95% common things in culture, only 5% differences. The human culture is the basic culture. Finding ways to improve people's lives may take different shapes, but it's still the same urge to improve your family, to care for your children, to have a decent life for yourself and so on. So those cultures are common cultures, as is the culture of poverty, deprivation and lack of opportunity. So we create a new culture of confidence and self dignity by [building] businesses that are not at the mercy of anybody. They are equal partners: the bank and the people. They are in business in equal partnership.

NBR: They are both taking a risk.

Yunus: They are both taking a risk and doing business together.

NBR: The focus of this series of interviews is greatest challenges. What would you say your greatest challenge has been?

Yunus: My greatest challenge has been to change the mindset of people. Mindsets play strange tricks on us. We see things the way our minds have instructed our eyes to see. We think the way our minds have instructed our minds to think. We are familiar with one way of thinking. Most of it comes during our academic years, during our student years. The teachers we had, the books we read -- they made up our mindset, and ever since we are stuck with that. We cannot break through this. If you are a successful student in a university, actually you become the 'mini' of the professor whom you liked and admired most ... So that's what mindset does. When you bring in a new thought, you are in conflict with those old thoughts. You struggle, but the old thoughts still prevail because the mindset is so strong. It would be good if we could have an educational system, a learning process, where we could retain our originality and at the same time accumulate insight and never become a mini professor, but remain ourselves and still absorb different views. Yet institutions have their own mindsets, and it's very difficult to penetrate and change them. So changing has to be done faster. It's a faster world -- particularly in the 21st century -- but human minds, our academic system, make change slow. So this has been the hardest challenge that I have faced along the way.

NBR: So you want change to be at a faster speed?

Yunus: Absolutely. Yes.

NBR: You were among the 25 most influential individuals that the Wharton School and *Nightly Business Report* selected for this series. In a sense, you are unique on that list. How do you see yourself among that group?

Yunus: I was very surprised. I didn't think I was at that level. These are the people who are admired all over the world, who have accomplished so much. Seeing that I was one of the 25, I was really inspired and overwhelmed. But in a way, if I look back, this is recognition of the importance of financial services to the poorest people. This is what you recognized. Today, if you look at financial systems around the globe, more than half the population of the world -- out of six billion people, more than three billion -- do

not qualify to take out a loan from a bank. This is a shame. What kind of institutions have we built that cannot afford to extend their services to the majority of the people?

NBR: And finally, what is your vision for the future?

Yunus: My vision for the future? Two things: to make credit a human right so that each individual human being will have the opportunity to take loans and implement his or her ideas so that self-exploration becomes possible. And second: that it will lead to a world where nobody has to suffer from poverty -- a world completely free from poverty. Not a single human being will suffer from the misery and indignity of poverty. Poverty is unnecessary. The human being is quite capable of taking care of himself or herself. But we have created a society that does not allow opportunities for those people to take care of themselves because we have denied them those opportunities. I have described poor people as like a bonsai -- that little tree that grows in a flower pot. I said you pick the best seed of the tallest tree in the forest, and plant it in a flower pot, and it will grow into a tiny tree. Is there anything wrong with the seed? Nothing is wrong with the seed. It's the best seed. Then why is it tiny? Because you planted it in a flower pot. You didn't allow it to grow in the real soil. The poor people are the bonsai people. Society has not allowed them the real soil. If you allow them the real soil, real opportunities, they will grow as tall as everybody else.

NBR: What has happened to those furniture makers that you first loaned \$27 to?

Yunus: They have changed. All of Bangladesh has changed if you look from the bottom up. In general, you see Bangladesh is still a poor country and so on. But empowerment has come to the women of Bangladesh -- even the poorest women in Bangladesh. It's tremendous. It's a dramatic change that has taken place. Women have access to money. They can now plan. They can now dream. Their children are in school. Many of them are going into higher education through Grameen Bank financing. New communities are emerging. A new generation is emerging. New technology has been brought in -- information technology, mobile phones, and so on -- in a country where 70% of the people have no access to electricity. We brought solar energy -- self-contained electricity -- and connected it to the mobile phones. We try to address all that. Housing has been brought in, and new infrastructure. The economy as a whole has changed. People are creating their own jobs. They are not waiting for anybody else to hire them.

NBR: And this program has been working in the United States?

Yunus: Yes in the United States, Canada, in England, in France, in Norway. Rich countries, poor countries -- the problem remains the same.

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