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FROM: GRAMEEN BANK

Saving the world with a cup of yogurt

Nobel Peace Prize winner Muhammad Yunus, the father of microcredit, has a new idea. It's called social business enterprise, and the first step is a yogurt factory in Bangladesh. Fortune's Sheridan Prasso reports.

(Fortune Magazine) -- Along a dirt road in Bangladesh's green, fertile heartland, 140 miles northwest of Dhaka, workers in flip-flops are hauling bricks, pouring cement and hammering boards. The object of their labor: a small yogurt factory being built by Danone, the French food company, on the outskirts of Bogra.

It may not look like much, but the one-story building behind a wrought-iron gate is the epicenter of a Big New Idea - one that Muhammad Yunus, the winner of last year's Nobel Peace Prize for his pioneering work on microcredit, thinks can revolutionize a world still being transformed by his first big idea.

"I hope it will be an important landmark in the annals of business," Yunus says a few days later in Dhaka, at the opening ceremony for the factory in early November. "The concept it represents is very powerful."

That concept is called "social business enterprise." It may not be as concise or as self-evidently defining a term as microcredit, but Yunus believes it represents the evolution of his old idea in a new direction. Yunus's first idea started with lending \$27 out of his own pocket and a belief that the poor, particularly poor women, could be empowered as entrepreneurs if only they had the means to start their own small businesses.

Tools for better living

The institution he founded to fund them, Grameen Bank, took three decades to receive worldwide recognition but has now transformed thinking in the banking, development, and nonprofit worlds - attracting the political left to the idea of poverty alleviation and the political right to the idea that entrepreneurialism, rather than charity, is the solution.

Even before winning the Nobel Prize, the self-effacing and charismatic Bangladeshi economics professor was becoming the equivalent of a rock star. He counts Bill Clinton among his close friends, has been

hosted by princes and queens of Europe and was offered a private plane to Chicago to appear on "The Oprah Winfrey Show."

Replicas of Yunus's program have spread to nearly every part of the globe, including Africa, Latin America, even Harlem. The resulting \$9 billion microlending industry, which has drawn names that include [Citigroup \(Charts\)](#), [Deutsche Bank \(Charts\)](#) and the Bill & Melinda Gates Foundation, hinges on the belief that people do not need the threat of seized assets to have an incentive to pay back loans. Grameen boasts an audited repayment rate of 98 percent, far higher than the industry standard for loans to those who have collateral.

Combatting poverty

But microcredit is only half of what Yunus wants to leave as his legacy. Social business enterprise, he says, is next. The idea marries the interests of corporations with economic development in a way that has never been tried before.

Companies would draw on microcredit-funded businesses to incorporate nonprofit models into their bottom-line operations, seeking not just revenue but social returns, and returning the profits to the communities where they operate. "If we can create this," Yunus says, "the world will be a much better place."

To put it simply, Yunus believes not that Adam Smith's concept of profit-motivated, free-market capitalism is flawed, but that it is too limited. The conventional thinking that capitalism breeds wealth creators and competitors who spread that wealth by creating jobs and opportunities for the good of societies has not worked out very well for the majority of the world, Yunus says.

And indeed, a recent UN study concluded that the richest 2 percent of the world's adults, mostly Americans, Europeans and Japanese, own more than half of global household wealth.

So why isn't it working? Why do three billion people - almost half the world's population - still live in poverty? The answer can't be blamed entirely on inefficient markets, corruption and dictatorships: Even the U.S., the wealthiest country in the world, has 36 million people living below the poverty line. Yunus invites anybody who is listening to think bigger about the concept of capitalism itself.

While Yunus didn't invent the notion of nonprofit enterprise or of doing business for social good - Harvard Business School added a course called Social Factors in Business Enterprise back in 1915 - it is a concept, like climate change before Al Gore, in need of a frontman. Yunus is becoming that person, articulating his vision in ways CEOs understand.

"Many of the problems in the world remain unresolved because we continue to interpret capitalism too narrowly," Yunus told an audience at Oxford University last year. "We have remained so mesmerized by the success of the free market that we never dared to express any doubt about it."

Well, actually, Karl Marx once did, and that didn't end well. But Yunus isn't calling for capitalism's abolition; he's calling for its enlightenment.

What if we lived in a world where companies didn't measure their performance only in terms of revenue and profitability? What if pharmaceutical companies reported on their bottom lines, along with those familiar figures, the number of lives saved by their drugs every quarter, and food companies reported the number of children rescued from malnutrition?

[From microcredit to microcapitalism](#)

What if companies issued separate stock based on social returns, and people could buy the shares of those that saved more lives than others, or sell the shares of energy companies that polluted more than their competitors? What if, by raising "social capital" and investing it in sustainable businesses without a profit motive, companies could reach into new markets, expanding their core businesses at the same time they improved lives?

That's the world Yunus envisages. "It could be a very big idea," says a fellow Nobel laureate, the economist Joseph Stiglitz, who has been hearing Yunus talk about his new endeavor for years. The question, he says, is how to implement it.

The yogurt experiment

At a lunch in Paris, in the fall of 2005, Yunus invited Danone CEO Franck Riboud to come to Bangladesh and build his first social business enterprise. Riboud listened, then agreed. The yogurt Danone would make would be fortified to help curb malnutrition and priced (at 7 cents a cup) to be affordable. All revenue from the joint venture with Grameen would be reinvested, with [Danone \(Charts\)](#) taking out only its initial cost of capital, about \$500,000, after three years.

The factory - and ultimately 50 more, if it works - will rely on Grameen microborrowers buying cows to sell its milk on the front end, Grameen microvendors selling the yogurt door to door and Grameen's 6.6 million members purchasing it for their kids. It will employ 15 to 20 women.

And Danone estimates that it will provide income for 1,600 people within a 20-mile radius of the plant. Biodegradable cups made from cornstarch, solar panels for electricity generation and rainwater collection vats make the enterprise environmentally friendly.

International organizations such as Unicef believe it may be such a revolutionary means of improving nutrition through a sustainable business model that it is watching closely - and may seek to replicate around the world.

For Riboud the enterprise is about expanding into new markets with nutrition-enhancing products. "It's really a growth strategy for our company," he says over a bowl of onion soup in a Dhaka hotel. "We are convinced that in this world, when you are a consumer-goods company and the country is a developing country, it would be crazy to think only about the peak of the pyramid."

But it's clear also that Riboud agrees to a large extent with Yunus's worldview. "Is the classic economic model working?" he asks. "No! But I told him, 'I don't want to make charity.' The strength is that it is a business, and if it is a business, it is sustainable. Your shareholders are happy."

And, Riboud adds, they can see social benefits, something he says may ultimately be reported on Danone's bottom line along with the revenue from its Dannon and Stonyfield yogurts and Evian and Volvic mineral waters. "We're saying that profit maximization is not going to be the only way to measure value," says Emmanuel Faber, Danone's former CFO, who now runs Asia-Pacific operations for the company and who arranged the lunch between his boss and Yunus. "There is a whole emerging area of picking stocks for social impact."

Ideas along these lines are being discussed within corporations such as [GE \(Charts\)](#), Unilever, [Coca-Cola \(Charts\)](#), [PepsiCo \(Charts\)](#) and Cargill, says Marc Van Ameringen, executive director of the Global Alliance for Improved Nutrition in Geneva.

"The new wave in business is, forget corporate social responsibility and philanthropy - how do you integrate this into your core business?" he says. "The idea Danone has of creating a social dividend for shareholders - that's cutting-edge. No one else has come up with this interesting a model. It supports

your brand, returns your capital, you're not going to lose money and you give your shareholders a vision of doing something good."

Adds Antoine Hyafil, dean of faculty at the HEC School of Management in Paris, where the MBA program in sustainable development includes studies in social business enterprise: "This is the kind of thing that can change the mentality within business. Even if it replaces corporate giving, money given for philanthropy is often misused." Rethinking the divide between profit motive and social good, Hyafil says, is an emerging trend for business, and Yunus is at the forefront of the movement.

Yunus says business schools should start turning out social-business MBAs trained in creating social returns: "People say, 'Don't be stupid.' I say there are a lot of stupid people like me. I don't want to make money. Lots of young people don't want to make money, because their mother, their father made so much money. They don't know what to do with their lives. There are many such kids in the U.S. They don't have any challenge left. Give them the challenge: Fix the world. Create a social business enterprise."

Nobel Peace Prize winner itching for a fight

On a peaceful Friday morning in November, during a lull between strikes and riots that have brought Dhaka to a standstill in advance of parliamentary elections, Yunus pays a visit to the village of Basta, a half-hour drive from the capital. He has come to check on Grameen Bank's microlending programs.

In a country like Bangladesh, paralyzed by strikes and inept governance, it's obvious why Yunus sees business rather than the state as the way to solve social problems. Without Grameen and other nonprofits, the situation in Bangladesh would be far worse.

While half the country still lives below the poverty line, Grameen says that 5 percent of its borrowers escape poverty every year, helping to double the country's annual poverty-reduction rate from 1 percent to almost 2 percent since the beginning of the decade.

Fierce opposition

Yunus had to work hard to convince mullahs in the majority Muslim country that the Prophet Muhammad would have supported the idea of lending primarily to women. The idea of economically empowering women was a radical one, and Grameen branches in Bangladesh became the targets of occasional bomb blasts by Islamic fundamentalist groups.

Yet it's the criticism from both left and right intellectuals that has hurt the microcredit movement most over the years. "They don't throw grenades and firepower, but they throw intellectual grenades all the time, so it's no less harmful," Yunus says. "The grenades coming from the mullahs attack only one branch, but the grenades that the intellectuals and academics throw at us hit the whole system."

Among the more frequent criticisms leveled at Grameen by these critics is that microlending is too small to make a difference - that it's making poverty more tolerable rather than eliminating it. But after starting out granting small loans of \$10 to \$20, Grameen now allows members with solid repayment histories to up the ante and borrow as much as \$18,000.

Ravia Khatun, a wizened woman dressed in black who gives her age as around 60, says she graduated from buying cows with her Grameen loan to buying a \$6,000 Toyota pickup truck, which her sons use to ferry passengers and produce to the local market in Basta.

"Farming cows is a troublesome business," she says, calculating her family's daily profit from the taxi business at nearly \$23 - more than the minimum wage of a garment worker for a whole month in

Bangladesh. "This taxi business is better, and my sons can take care of it," she says, "so I sold all my cows."

Microlending also offers many families a way into the middle class. Take the case of Riziya Begum, who bought her first cow with a \$30 loan from Grameen Bank. Before that, she and her husband were among the millions of poor farmers in Bangladesh, growing rice and living day to day.

"Sometimes I ate, sometimes I didn't have food," she says, sitting in her corrugated-tin house - the equivalent of a middle-class home in Basta. Begum, who is about 40 (she doesn't know her birth date), bought land with the money she earned from selling cows. She sent her eldest son to work in Saudi Arabia with money she earned from selling some of her land. And he sent enough money home a few years ago for her to buy a TV.

Begum also has her own well for drinking water, a second plot of land on which she and her husband plan to build brick homes for their two sons when they get married, and an electric fan. "Even my cow has a fan now," she says.

But her greatest pride is her 8-year-old daughter, Aklima, who attends school every day - the first girl in many generations of Begum's family to have an education. Begum is considering taking out a Grameen higher-education loan to send Aklima to a university. Aklima, it turns out, wants to be a doctor. "I saw it on TV," she says.

The women members of Grameen Bank rely on peer pressure to encourage one another to pay back loans, and few, if any, ever default - instead turning to relatives and friends to help them make their payments.

Yunus concedes that those really in trouble, such as victims of Bangladesh's recurring natural disasters, may be allowed to take more time to pay by rescheduling their debts. In the case of death or incapacitation, an insurance plan paid into by all borrowers covers the loan principal.

Grameen is self-sustaining, charging interest rates of 20 percent on basic loans and lending only the money it takes in from members repaying loans (and the 33 percent of depositors who are not borrowers). Money lenders, to whom villagers would otherwise turn, sometimes charge up to 10 percent a day. Interest rates on Grameen home-improvement loans and mortgages are 8 percent.

Grameen also set up an interest-free loan program for beggars. There's no obligation to pay back the loans, but the beggars are encouraged to use them to buy small trinkets or food to take on their rounds and try to sell. If they do pay back their principal, they can get another loan.

8 technologies to save the world

So far, the program has turned 78,000 beggars into merchants, and some 2,000 of them report that they have stopped begging entirely, breaking generations of tradition. Sajeda Begum of Ittahata village north of Dhaka, who gives her age as around 35, is an example. With a loan of 1,000 taka (\$15), she started buying eggs from the market in the mornings, taking them home and boiling them, then selling them for a 2-cent markup to factory workers leaving their shifts.

Her 40-cent-a-day profit is enough to feed her family and make loan payments. "No more begging," she says. "I hope to borrow another 3,000 to 4,000 (\$45 to \$60) to expand this business. It makes money."

Grameen has provided Bangladeshi women the financial means to leave abusive husbands. They own homes in their own names, no longer pay dowries, live longer, have improved nutrition and hygiene and

are better able to care for their families. They transcend the class status they were born into through entrepreneurialism and education.

"I am destroying the culture, yes," Yunus says, beaming mischievously at the thought. "Culture is a dynamic thing. If you stay with the same old thing over and over, you don't get anywhere."

The same applies to Yunus's concept of microcredit. Sticking with the same old idea over and over only gets you so far. To really get somewhere, Yunus says ... well, there's this Big New Idea.