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Promoting Inclusive Financial Markets

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# Is it fair to do business with the poor?

Report on the debate between **Muhammad Yunus** and **Michael Chu**
organized by the World Microfinance Forum Geneva
on the occasion of its 1st International Symposium, 1-2 October 2008

**What is the role of commercialization, commercial capital and commercial investors in delivering microfinance to poor people? Is it ethical to make money out of the poor? These were the central questions of a debate organized by the World Microfinance Forum Geneva between Muhammad Yunus, Founder of Grameen Bank, and Michael Chu, one of the visionaries behind Banco Compartamos. Rich Rosenberg, Senior Advisor to the Consultative Group to Assist the Poor, facilitated the discussion.**


## 1. Opening statements

<u>Chu:</u> I think the tremendous discomfort that people have with the notion of profit – when it is earned from the poor – is very natural. I have felt it myself, and when I ask myself 'Why do I feel that way'? I think it is because for hundreds of years our cultures have associated profit with greed, and service to the poor with self-sacrifice. This subconscious association goes so deep, that when we approach commercial microfinance we tend to focus on how we feel about it. However, to me the only valid perspective is not how we feel, but rather what is valid in the eyes of the poor.

**To me the only valid perspective is not how we feel about earning a profit from the poor, but rather what is valid in the eyes of the poor**

We want to truly roll back poverty, not just alleviate its symptoms. For this, we need to accomplish four things simultaneously and consistently.

The first is to reach massive numbers. There are 3 billion people who live on less than 2 USD a day, so reaching a few million is nothing. The second is permanence. It is unlikely that any intervention will succeed in one generation, so we need something that is for today's poor, their children and their children's children. The third is continuous efficacy. We need a model that gets better and better each passing day. The fourth is continuous efficiency. We need a model that gets cheaper with each passing day.

NGOs, philanthropy, development agencies, corporate social responsibility – at their best – give birth to and nurture ideas that can change the world. But none, not even the World Bank, is structured for massive scale or permanence. The state can provide scale and some permanence. However, for many reasons, as a direct provider of goods and services, it is enormously challenged to provide continuous efficacy and efficiency. In fact, the only thing I know that can consistently and simultaneously provide massive scale, permanence, continuous efficacy and continuous efficiency, is business.

www.microfinanceforum.org
info@microfinanceforum.org

World Microfinance Forum Geneva
7, Chemin du Rivage, 1292 Chambesy, Geneve
Switzerland
Tel +41 22 7700083, Fax +41 22 7700087

**The only thing I know that can consistently and simultaneously provide massive scale, permanence, continuous efficacy and continuous efficiency, is business**

Not through an individual firm; enterprises are born, prosper, and die; but through the creation of an industry. And you need two things to create an industry: you need an economic activity, and you need not substandard, not average – but above average – returns.

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That is the enduring lesson of 30 years of successful microfinance. Commercial microfinance matters in the eyes of the poor because it means there is an industry; strong and mighty; because it is healthily profitable, standing behind their financial needs. For the first time the poor can envision that every family that needs microfinance, and can progress through microfinance, will one day get it. That is how powerful commercial microfinance is.

**Commercial microfinance matters in the eyes of the poor because it means there is an industry; strong and mighty; because it is healthily profitable, standing behind their financial needs**

*Yunus:* What is the goal we want to achieve through microfinance? If you define your goal clearly, you will find the way to do microfinance. Each one of us can define his or her own goal. The reason we got involved is because we want to help people to overcome poverty. That's our reality check: every time we do something we ask 'is it helping?', 'can we do it in a better way?', 'can we do it more efficiently?'

**What is the goal we want to achieve through microfinance? We got involved because we want to help people to overcome poverty**

We designed our bank as an institution to be owned by its borrowers. No one would have blamed us if we had created a bank owned by a few of us or myself, and we had all the opportunity to do that, but we chose not to. We chose to create an institution owned by its borrowers because we thought that was the best way to help poor people get out of poverty.

We focused on women. Not because it is good business, but rather because we thought, and found through experience, that the impact on the family is much greater if you serve women. We helped children go to school. Not because it brought us money, it did not: it cost the bank money. But we thought this was a meaningful investment whose benefits we would reap in future.

We did these things because we had asked ourselves 'are we doing the right thing?', 'are we helping the poor in the best possible way?' If your goal is to help the poor in the best possible way, I do not think you can improve on what we are doing. But if your goal is something else, then of course your work should be consistent with that goal.

When we first got involved in microcredit it was to try and protect people from loan sharks. And, as you recall, my first loan was 27 USD to 42 people. I thought that with this money they could repay their loans to the sharks, and then live free. The loan sharks were in business, too. And with the money from the loan sharks the poor probably benefited, too. But that did not encourage us to join the club of loan sharks. Instead, we created something that would help the poor in a much more powerful way.

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The challenging issue in microfinance is transparency; so that everyone knows what you are doing. In microfinance, many things are hazy, like when people say they charge an interest rate of 3% per month. That 3% per month may mean 36% a year, which sounds reasonable. However, it may also mean 90%, depending on how it is calculated.

Transparency means declaring everything in a standardized way. For interest rates, let us use the APR, the annual percentage rate[1].

To know whether our work is consistent with our objectives, it is important that we not only define our goal clearly, but also that we are transparent about what we do.

## 2. *Rosenberg:* Is it possible to satisfy the demand for microfinance services around the world using institutions that are not profit-maximizers: NGOs, double bottom line corporations, governments etc. Or do we need the engine of the commercially-driven profit-maximizing private sector to reach this demand?

*Yunus:* Grameen Bank is a profit-maximizing institution. We are not ashamed to make money. On the contrary, we expect applause when we manage to give a 100% dividend to our shareholders. There is nothing wrong with profit maximization, provided the institution is owned by the poor and the profit goes back to them. Returning profits to the poor expedites development.

**Grameen Bank** was founded by Professor Muhammad Yunus in Bangladesh in 1976 as a project, and was incorporated as a for-profit, specialized bank for the poor in 1983. By February 2009, it served more than 7.7 million poor Bangladeshi families with microcredit, microsavings, microinsurance and other services. The bank is owned by its borrowers, and paid a 20% dividend in 2007. www.grameen-info.org

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We live in an ocean of money, even the poor do. However, the poor do not have the privilege of taking a sip out of that ocean. Grameen just creates that connection between the poor and the ocean around them. We collect deposits in the locality. There is plenty of money in the locality – money is not the problem. The problem for many institutions is the legal framework: you are not allowed to take deposits. When microcredit organizations look for money, their focus should be on how to get local money. They should try to fix the legal framework so that they can become local microcredit banks that can take deposits and lend them to the poor. Their focus should not be on how to get to international money. Connecting microcredit institutions to the international capital market is no solution at all.

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**Connecting microcredit institutions to the international capital market is no solution at all**

*Chu:* It does not take stretching the definition of poverty too much, to think that 4 billion people of the 6.5 billion in the world live in unsatisfactory conditions. If you assume an average family of four, that means 1 billion families. If you assume that half of them would benefit from microcredit (because not everyone benefits from financial services), that leaves 500 million families. If you assume an average loan of 500 USD, that is 250 billion USD. And if you assume some growth in loan size over time to 1000 USD, you are talking about 500 billion USD. The only way to mobilize the money needed to

[1] A consistent measure to calculate the costs of a loan to a client, whose publication is demanded among others by the US Truth in Lending Act. In microfinance this is often called the 'effective interest rate'.

meet the credit needs of the poor is to connect to the ocean of commercial money.

**The only way to mobilize the money that is needed to meet the credit needs of the poor is to connect to the ocean of commercial money**

I think the great lesson of microfinance is that microfinance institutions do not need a legal framework that is tailored to their needs. Institutions that fulfill the characteristics of any financial institution can mobilize the commercial funds necessary to provide microcredit, so long as they provide the market with an attractive return that can lay legitimate claim to the world's ocean of money.

**Microfinance institutions do not need a legal framework that is tailored to their needs**

3. ***Rosenberg:***
**Banco Compartamos recently had a secondary offering of its shares that made many early investors multi-millionaires. One of the long list of reasons for the high share price was the very high profitability of the institution based on interest rates that were around 85% per year plus a 15% government tax. Is Compartamos, including all its policies on profits and interest rates, a good thing for poor people in Mexico?**

**Compartamos Bank** started in 1990 in Mexico as a non-governmental organization that provided loans to microentrepreneurs. Michael Chu sat on its board in the 1990s. Compartamos' conversion into a full-service bank was followed in 2007 by an Initial Public Offering (IPO) of its stock on the Mexican Stock Exchange, which was 13 times oversubscribed. In 2008, the bank reached its one-millionth client. www.compartamos.com

*Chu:* Having had a hand in its creation, I think that Banco Compartamos is one of the best things that could have happened to the poor in Mexico. Since the IPO of Compartamos there has been a rush of financial institutions into microfinance in Mexico. Most recently there has been an announcement that Grameen will ally itself with Carlos Slim, one of the wealthiest men in the world, to deploy microfinance in Mexico. And that is part of the great success that Banco Compartamos is all about.

**Banco Compartamos is one of the best things that could have happened to the poor in Mexico**

The rush into microfinance in Mexico will not make life easier for Banco Compartamos. It could have remained earning its outstanding return as a private company, and we would never be talking about it today. However, part of the dream when we created it in 1998 was that this would one day happen: that people would rush in, having found that it is as rational to serve the poor, as it is to serve the wealthy.

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*Yunus:* Take the case of Bangladesh. Bangladesh has almost half its population under the poverty line, and so, by definition, half its population are potential microcredit clients. Today 80% of families have been reached with microcredit, and the way the market is growing, probably by 2012 it will be about 100%. The reason I mention this is because it is not because international money was poured into Bangladesh that this was made possible. It was because we opened the doors so that local money could be made available. It does not matter how many numbers you crunch to show how much money is needed. Bangladesh is a big place; 150 million people; but half the population is eligible for microcredit, and it can be served with local money. The stumbling block is not to know where the money should come from.

**Bangladesh is a big place;
150 million people;
but the population that is eligible for microcredit
can be served with local money**

Does Compartamos help the poor? Take the Philippines. There is a long-standing business called 'Five and Six': you borrow 500 peso in the morning, and pay 600 back in the evening. This system is driving business continuously. We can ask: 'Does it help the poor?' It does, otherwise why should it be surviving? But that is not the kind of helping-the-poor that we would like. We would like to have a different kind of help-the-poor that does not require paying an extreme interest rate of 20% per day.

The real question is: 'do we take advantage of the poor?', 'do we treat poor people differently from the rich?' If you try to make more profit on the poor than you make on the rich, it sounds a lot like you are taking advantage of the poor.

**The real question is:
'do we take advantage of the poor?'**

I would like to be on the side that does not want to take advantage of the poor, that does not abuse poor people. I want to give them the best deal they can ever get, better than anywhere else. And from that perspective, I think Compartamos is on the wrong side.

### 4. Rosenberg: How confident are you that competition will in fact lower interest rates, force more efficient cost structures, and lower profit?

Yunus: In the area of credit to the poor, no amount of competition lowers interest rates. If it did, 'Five and Six' would have come closer to 'Five and Five' – but it has not. No matter how much microfinance has been poured into the Philippines, 'Five and Six' has remained 'Five and Six'. People still pay interest on loans in the United States, despite the increased competition and sophistication in banking services, and the interest rates vary enormously.

The idea that competition will somehow reduce interest rates is a pipe dream. Interest rates will only lower if you start from the bottom up rather than wait for the interest rate to come down by magic.

**The idea that competition will somehow reduce interest rates is a pipe dream**

Chu: When you create an industry, competition is the only insurance that the benefits through time will continue to accrue to your target population and do not remain in the hands of investors and management. Competition does work and the evidence is in.

**Competition does work and the evidence is in**

Take the case of Bolivia. The Bolivian interest rate for microfinance has been dropping inexorably and consistently since 1998 when competition really started, and there is no end in sight. Today Bolivia has the lowest microfinance interest rate in Latin America, 18% per year. I remember when it was at 75-80%.

Why has the interest rate in Bolivia been falling? Because there are four world class institutions competing for the business of the poor. One of them is Bancosol. Bancosol was the first of its kind, founded in 1992. I had the enormous privilege of being on the Board and serving as Chairman when it hit 30% return. Last year it achieved 37.5% return on equity. This is because competition forced it to learn the painful lesson of how to reduce its costs faster than the decline in interest rates.

Yunus: I believe in competition, too. Not the competition to make myself rich, but rather competition in doing good. We encourage people to do good because their hearts are human. Should you compete with your friends about who can make more money, or should you compete amongst your friends about who can help more people out of poverty?

**I believe in competition, too.
Not the competition to make myself rich,
but rather competition in doing good to people**

Rosenberg: It appears that from 2003 to 2006 microcredit interest rates have been dropping quite fast at a rate of 2.5 percentage points per year. The weighted average rate in 2006 was about 28%. Now this does not tell us a great deal about how much of that is coming from competition, because the learning curve itself is a very strong driver of efficiency in business. We will have to watch further and look at some of the markets where competition is really heating up, to get a final answer on competition.

### 5. *Rosenberg:* When private commercially-motivated investors (for whom financial return is the predominant priority) start moving into microfinance, does this have a tendency to raise the interest rates charged, or does it pull microfinance institutions away from the poor as clients?

*Chu:* This is very debated. I think it is a red herring, because when you build your expertise and competence in one segment, it is at your peril if you then think you can succeed in a totally different segment. That is why few analysts worry that McDonalds will leave fast food in order to compete with fine French cuisine. The same thing can be said for microfinance. The strong microfinance institutions that I know are terrific because they know their segment so well; their loan officers are trained to relate to that segment. And it makes very little sense for loan officers with dusty shoes to try and compete to serve the treasurer of the big local beer company or the big local cement company.

**Few analysts worry that McDonalds will leave fast food in order to compete with fine French cuisine**

The institutions I know that have been tempted to migrate up on average loan size alone have suffered tremendously; because, as you know from business, when you penetrate a segment in which you are the last entrant, you have to be careful that you don't start getting the business that everybody said 'no' to.

As long as the microfinance market is as unpenetrated as it is, it makes more sense to defend and build your expertise. Banco Compartamos hit its one millionth client about 3 weeks ago, but there are 10 million Mexican families that have not yet been reached. Why migrate to where everybody and their cousin is, competing with skills and competencies that you do not have?

*Yunus:* Everything depends on your objective. If your shareholders' objective is to make money, of course you will drift from your social mission. New shareholders with a commercial interest will go where the money is. If the money is somewhere else, they will not hesitate to go there.

**If your shareholders' objective is to make money, of course you will drift from your social mission**

Unless you are forcing yourself to reach the poor, independent of whether you are making more or less money, you will not achieve it. It is precisely because mainstream financial institution do not have reaching the poor as their number one goal, that poor people never get money from them.

Institutions that introduce a commercial mission did not have a social mission in the first place. You cannot have both a social and a commercial mission – the two conflict. When institutions with a social mission move towards a commercial mission, the commercial mission will take over and the social mission will get lost.

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### 6. *Rosenberg:* The implication would be that there is a trade-off between serving poor clients and making a good profit; that it is less profitable to serve the poor, and therefore if your objective is profit, you will move away from serving the poor. Has this been borne out by experience?

*Yunus:* Most institutions remain what they are. A microcredit program that is committed to serving the poor will not rush to a new market in order to make money, and an institution that is in a market where it can make money will not rush to the poor. I do not think that institutions switch from one objective to another.

*Chu:* No institution can make money continuously by making only very small loans. There is no institution in the world that can make much profit with an average loan size of 75 USD. But when a microfinance institution does its job right, it lends to poor people that can benefit from that loan. It does not lend to people who merely end up in debt, because if there is something worse than being poor, it is being poor and over-indebted. It lends to families who can prosper with the loan and pay it back, and gradually get bigger loans. Then that 75 USD will become 150, 200, 500 USD. I have talked to women whose first loan was 125 USD, and who 4 years later wanted 25'000 USD. The client's success is also the success of the institution.

*Rosenberg:* Among the microfinance institutions that report to the Microfinance Information Exchange, the profit levels of the not-for-profit institutions are higher than the for-profit institutions. I would not want to make too much out of that statistic; there are reasons. For example, not-for-profits do not pay taxes, and for-profits are likely to be in more competitive markets, which may have a restraining effect on profits. It is funny how, when we descend from the rhetorical level from which we conduct most of our arguments to look at what is really happening out there, quite a few surprises emerge.

7. ***Rosenberg:*** **We read studies coming from Bangladesh, Bolivia, the Philippines that talk about the steps that clients take in order to make their loan payments, even in institutions where loan repayments are high. They include going without eating for 3 days before the payment is due, selling productive assets, or taking children out of school and putting them to work in the fields. These studies are conducted by pretty reputable groups; the Bangladeshi ones were conducted by CARE; the Bolivian one by Ohio State University. We are not talking about isolated anecdotes. How would we know whether we are over-indebting our clients? Remember that many of them are borrowing from multiple microfinance institutions at the same time. How much of this do we think is happening?**

*Chu:* If you believe in the power of market responses, you have to remember that Adam Smith's invisible hand is in fact a very clumsy hand. The meltdown of the US financial system is a terrific reminder of that. It is also true in microfinance when competition comes; the evolution of industry does not occur smoothly. It is a cost of market mechanisms that whenever money looks for clients, instead of the reverse, there will be dead and wounded. That process occurs in all segments – when yuppies get a credit card a month in their mailbox, they get over-indebted.

**Adam Smith's invisible hand is in fact a very clumsy hand.
Wherever money looks for clients, there will be dead and wounded;
this is a cost of the market mechanism**

Bolivia is a case in point. With competition, serious over-indebtedness occurred. In 1999, there were Bolivian clients who had never missed a payment, who today are ruined and may never recover their good standing as debtors.

I don't want to underemphasize the fact that there were dead and wounded in this process, but the end result of competition in Bolivia is that it has today the lowest microfinance interest rate in Latin America.

*Yunus:* We have built in safety devices to ensure the bank does not hurt its clients. In the first place, Grameen Bank is owned by its borrowers, so it is in fact their bank. Every 3 years the borrowers elect their representatives on the board.

Since they are represented on the board, it is difficult for the bank to be harsh to them. They decide on the policies, so they can change the rules that hurt them.

**We have built in safety devices to ensure the bank does not hurt its clients**

In the second place, Grameen Bank focuses on increasing people's savings, for their own protection. The bank takes deposits and lends the money to the poor in the locality. Today we lend over 1 billion USD a year, and all this comes from our deposits. In fact, our deposits are worth 150% of our portfolio of outstanding loans. 67% of our deposits come from the borrowers themselves. Since borrowers have such large savings in the bank, it would be very difficult for them to get over-indebted.

In the third place, right from the beginning, Grameen Bank built in a mechanism to help borrowers start all over again. In Bangladesh floods are a constant companion of life. Sometimes floods are nationwide and disastrous, but a local flood is no less painful for the people in that locality. People who are affected by a flood often lose their assets and their homes. We go and issue them fresh loans: housing loans and loans for the income-generating assets that they lost. We also increase the repayment period of their old loans.

**Our basic principle is that we should not add to people's misery – our job is to reduce misery**

Fourthly, Grameen Bank does not impose penalties. Clients are not afraid that if they do not pay back, something terrible will happen to them. People's lives are very uncertain, but this does not mean they do not have a chance to succeed. They know that if they have a health problem or their money gets stolen, Grameen Bank remains welcoming. They are given new loans and their old loans are rescheduled.

## 8. *Rosenberg:* Is foreign capital necessary, unnecessary, or worse than unnecessary?

*Yunus:* First I admire people who want to support microcredit, and I would like to express my gratitude to them. However, I find that the ultimate solution for microcredit is to rely on local money. You need to open the gates of local money, so that you are not dependent on external money.
External money involves many problems. One is foreign exchange risk. If anyone wants to provide funds to a microfinance institution, he or she should provide local currency. But I would recommend microfinance institutions to get away from the open door of foreign capital, which can suck up everything you have. The other problem is that of administration and management of foreign capital. This can take away your focus from the real solution: local money. I would like to emphasize this and mobilize support from all directions so that the gates of local money can be opened faster.

**External money involves many problems, such as foreign exchange risk**

**The administration and management of foreign money can take away your focus from the real solution: local money**

*Chu:* I would hope that the poor of the world would get access to the ocean of money out there, the savings of the world. When you talk about foreign capital, it is important to distinguish between equity and debt. When foreign capital is injected as equity, only the investor is exposed to foreign exchange risk. Then, microfinance institutions have to judge the foreign investor just like they would judge any investor: there are good investors that you would like to have, and investors that you would not like to have.

When foreign capital is injected as debt, it is up to the management of the microfinance institution to find the balance between debt denominated in foreign currency and debt denominated in local currency. Usually foreign currency debt comes with exchange rate exposure but a lower interest rate, while local currency debt carries no exchange rate risk but comes with a much higher interest rate. Great treasurers know how to find the perfect balance.

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This shines light on the fact that strong management is hugely important for microfinance institutions. It is important for any business, but even more so for a business that has an impact on poverty. And it is particularly important for microfinance institutions that are thinking of bringing in foreign capital.

### 9. *Rosenberg:* Over the next 10 or 20 years, what most worries you about the evolution of microfinance?

*Chu:* Any time you combine something like profit and the poor, you have a very combustible mixture. I am afraid that politicians and regulators will fail to understand the need to create and maintain a legal framework that will accelerate the development of the market by promoting competition, transparency and solvency.

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What they should not do for example, however tempting it may be, is to cap interest rates. We have seen around the world that capping interest rates is counterproductive. Interest rate caps create a sticky floor below which financial services will no longer be provided. Interest rate caps suck money from the poorest. So my gravest concern is whether politicians and regulators will understand.

**Any time you combine something like profit and the poor, you have a very combustible mixture**

*Yunus:* The situation of microfinance 10 years from now does not worry me; it excites me. Worries are current ones, as we go through our teething problems. As we go along we will become more successful in developing proper legal frameworks and accessing local funds.

One of the biggest and most critical issues now is to create a legal framework for microcredit banks, so that they can start taking deposits. Once that has been created, people who are running successful businesses and doing good things will be able to continue and expand without any outside intervention or help.

**One of the biggest and most critical issues now is to create a legal framework for microcredit banks, so that they can start taking deposits**

As we create microcredit banks, we will obviously be needing stronger regulatory bodies. These regulatory bodies will have teething problems, until they sort out their role – which is to create microfinance opportunities for poor people.

During the initial excitement about microcredit, people interpreted the concept in many different ways; anything went by the name of microcredit. As we go forward, that will probably be sorted out, and a clear mission for microcredit will emerge.

Microcredit will open up, as the children of microcredit clients are given opportunities to create new businesses. The next generation is much more equipped than the first, which was mostly illiterate and had no experience with money. Clients' children will be opening up brand new businesses that their parents could never have dreamed of.

Ownership will become an issue. Through microcredit, poor people can start to become more than borrowers of 50 or 100 USD. They can become shareholders of big companies. Grameen borrowers now own a big bank. Grameen Phone, a related telecommunications company that is already probably the largest company in the country, is about to launch an IPO. One of the conditions we incorporated into the IPO is that part of it will be reserved for Grameen Bank borrowers. These will be buying 10 million USD worth of shares in Grameen Phone. We designed it in such a way that a shock due to the failure of Grameen Phone would be absorbed within the structure, and not passed on to the poor. And there will be more opportunities like that.

You have probably seen in newspapers that there is a corporate battle going on, in which Grameen borrowers are trying to buy the majority of shares of Grameen Phone.

I see exciting things happening in the next ten years. Mobile phones will probably become an instrument that will transform the entire microcredit scenario, and other technologies will be added. Poor households will be exciting powerhouses for creating innovative ideas, thereby changing their lives and the nation as a whole.

### 10. *Rosenberg:* What do you think of the role so far and at present of the international donor community in the evolution of microfinance?

*Yunus:* The donor community has played a very important role, and can play a more important role as we go on. One of its tasks should be the creation of local microcredit wholesale funds in which all donors can participate, and from which microfinance organizations can borrow. Direct relationships between donors and microcredit organizations are very cumbersome – that is why donor money should pass through such wholesale funds. These funds are useful during the period in which deposit-taking is not allowed in a country. When the necessary legislation comes in, such funds will become less important and hopefully, ultimately unnecessary.

Donor dependence is a sign of an immature microcredit market in a country. In a mature market, microfinance institutions are intermediaries that take deposits and lend these out. The sooner we get to that, the better. Donor-funded wholesale funds are an intermediate solution. Donors should negotiate with the government about the introduction of relevant legislation, and set up wholesale funds for the period that is necessary to pass this legislation. In Bangladesh, donor funding to the PKSF wholesale fund has been instrumental in developing the country's huge microfinance network; which includes several nationwide institutions.

**Donors should negotiate with the government about the introduction of legislation that allows microcredit organizations to mobilize deposits**

**They should set up wholesale funds for microcredit organizations for the period that is necessary to pass this legislation**

*Chu:* Donors, foundations, charity and developmental agencies played an extraordinarily important role in the evolution of microfinance. None of the institutions that stand today as beacons would have existed without the donor money that nurtured the idea when it was conceived, and that allowed proof of concept in the field.

Today, where commercial microfinance is present in Latin America, Africa and Asia, donors must be careful that they do not delay the entry of market mechanisms. Donors must not compete where capital markets can provide funds. They should focus on the role in which they are best: nurturing ideas, concepts and methodologies that are ahead of the market, in order to accelerate their application. For example, donors should fund experiments in rural areas, where current models make it challenging for commercial microfinance. They should fund experiments to penetrate the lowest segment, such as the attempts that Professor Yunus has described so articulately. It would be extraordinarily powerful if we could reach the indigent in ways that are economically rational. And to find these ways we need donors, because such experiments would not make sense for commercial initiatives today.

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**They should focus on the role in which they are best; nurturing ideas, concepts and methodologies that are ahead of the market**

### 11. *Rosenberg:* The majority of microcredit in the world is provided by government organizations, government retailers. Occasionally well, and usually quite poorly. 20 years from now, who do you think is going to be the dominant provider of microcredit around the world: not-for-profit and socially responsible corporations, or commercial profit-driven organizations?

*Chu:* Without doubt, I think it will be commercial financial institutions. What we do not know today is where they will come from. Will they be the microfinance leaders of today, that manage to keep their leadership? Or will these be just a footnote in history? I think that is quite possible. Or will they be global financial institutions that, through one way or another, have been successful in understanding how to reach the segment; which is hugely challenging, because microfinance works on competencies they do not have. Will they be new institutions that we have not even envisioned today? I do not know, but I think the path has already been set. One of our greatest accomplishments is that we have made the poor subjects of serious attention as clients to serve, and that is something from which there is no retreat.

_Yunus:_ I am surprised when you say that microfinance is currently done by government agencies. In Bangladesh, no government agency is doing microfinance. In India and China I do not see government agencies providing microfinance.

In Bangladesh, we have been pleading with the government all our lives: 'Please stay away from microcredit.' And it has done so. Microcredit has happened because of Grameen Bank and NGOs. I do not think government will play an important role in microcredit in future either, and it should not. In 20 years time it will probably be very clear that the government does not have the ability or facility to handle microcredit.

I think microcredit in 20 years will be completely different from the microcredit we are talking about today. Microcredit institutions will be owned by the borrowers themselves. Microcredit programs will be created as social businesses, dedicated to changing the lives of the poor. They will look at poor people not as an opportunity to do business, but as an opportunity to change the world. They will be transforming whole populations, reducing the number of people who are poor. There is no doubt about that.

If we are to believe the Millennium Development Goals, poverty will be halved by 2015. Bangladesh is a country still on track to achieve the Millennium Development Goals. I do not know what will happen after the financial meltdown, but for now we are on track. Between 2000 and 2005 Bangladesh reduced poverty by an average of 2% per year, and the rate of decrease is increasing. If we maintain the rate of 2% per year, we will arrive at the poverty reduction goal comfortably. But if we increase the rate to 2.5%, we will arrive much earlier than 2015. And Bangladesh is well placed to achieve all 8 Millennium Development Goals.

## 12. Final comments

_Chu:_ This has been in a sense an uncomfortable hour for me, because the debate format emphasizes the differences between Professor Yunus and myself. We have not had a chance to share the many things we think in common. I, like you, have been inspired by Professor Yunus's life and example.

Some of you know that I used to be in leveraged buy-outs, and that I retired from KKR to dive into microfinance. I learned the difference between business and social enterprise. In business you just focus on your company and your returns. If your returns are higher than your competitors', that is added happiness. But in social business, more than who you serve, it matters who you have yet to serve. If we look at the maybe 70 or 100 million people that are reached by microfinance today, that is not what is critically important. If we all lowered our interest rates for those 100 million, we would only benefit those 100 million. The key is: 'How do we reach with great urgency the several billion that are left?' Because every second of delay is a generation lost.

When I started walking the streets of the poor areas of the world, I realized that much more important than what drove me, was to be effective with these large numbers of humans who could not reach their potential. The promise of commercial microfinance is that we can really reach every single family that can benefit from commercial microfinance, by drawing on the savings of the world on an 'even-Steven' basis with everything else before it. Our final role is to change humanity.

**The promise of commercial microfinance is that we can reach every single family that can benefit from commercial microfinance, by drawing on the savings of the world**

**Our final role is to change humanity**

_Yunus:_ It is true that we had never talked to each other before we started to talk in public. The important issue is how you define your goals. Before you get into details, I think it would be a good idea to reflect on why you are interested in microcredit to begin with. Then whatever goal you set on the basis of that reflection, you proceed from there.

One of the issues that comes up again and again is that today's financial system is a limited system that serves only the top portion of the human population; it does not serve the larger population at the bottom. A system that only works for privileged people is unjust, especially because the people at the bottom are not at fault. There is nothing wrong with the people at the bottom, they are willing to do business, they are not asking for charity or subsidy, they are willing to pay back, and they are willing to pay interest that is higher than the interest rate charged by conventional banks to clients from the top. The payback rate of poor people who take tiny loans with high interest rates and other stringent conditions is often above 98%, while conventional banks have problems getting their money back, and are writing off trillions of dollars. Still, they are not interested in serving people who do business in a consistent way despite all the problems they have to go through; such as floods, cyclones and tsunamis.

An important issue is how to build an inclusive financial system in which no one is rejected, in a way that benefits them most, so that they can get out of their situation at the bottom as fast as possible. You can provide all kinds of microcredit products; they will always borrow and pay you back. The question is, however, 'Can we make the transformation faster than it would otherwise be?'

Another important issue is how to build institutions that are self-reliant locally. The more self-reliant, the stronger they will be. The more they are connected to something they do not know, with which they are not familiar, the more uncertainty there will be. By local I do not mean Bangladesh, I mean the village in which the institution is based. Not only Grameen Bank as a whole should become self-reliant; each Grameen Bank branch is required to become self-sufficient with money from its own deposits.

**The more locally self-reliant microcredit institutions are, the stronger they will be**

**The more they are connected to something they do not know, the more uncertainty there will be**

The goal of microcredit is not to provide money.

Money is important in that it creates a platform. The goal of microcredit is to dramatically transform the life of a family in its totality, by providing education loans, health insurance etc. With this goal in mind we can change the world quickly, and thus create our dream world in which nobody is poor anymore. We can create poverty museums that people can visit to learn how things used to be, because poverty will no longer exist on this planet.

**We can create poverty museums that people can visit to learn how things used to be, because poverty will no longer exist**

Transcription: Victoria Ferris
Editors: Pete Sparreboom, Roland Knorren, Katia Kerswell