



Using Microfinance and Other Social Businesses to Speed up the End of Poverty

In the morning of Thursday, April 9, **Professor Muhammad Yunus**, Managing Director of Grameen Bank in Bangladesh, chaired the workshop on “Using Microfinance and Other Social Businesses to Speed up the End of Poverty.” This workshop provided a unique opportunity for Prof. Yunus as well as **Hans Reitz**, Founder and Executive Director of the Grameen Creative Lab in Germany, and **Jean-Philippe de Schrevel**, Founder and CEO of Bamboo Finance/BlueOrchard in Switzerland, to share their fascinating first-hand ideas, experiences and successes in the emerging field of social enterprise investment.

The objectives of this workshop were to provide Summit attendees with a clear definition of what a social enterprise is and to inspire attendees to consider how they might initiate and “seed” social enterprises in their own communities. The panelists shared a number of fascinating examples that illustrated the key attributes of social enterprises, which typically focus on responding to a specific social concern, developing an effective business model that can be applied to solve that issue, and eventually, replicating that effective solution in other communities as well. Creativity is at the core of social enterprise, and Grameen’s Creative Lab is poised to support and encourage the creativity and passion that are the catalysts for social enterprise around the world.

Prof. Yunus, Managing Director of Grameen Bank in Bangladesh, commenced the discussion with his global vision and insights on social enterprise. “Real human beings are multidimensional, not one dimensional” he pointed out, “but economists [look at just] one part of human beings ... ‘selfishness’ ... Self-protection, when we want to protect ourselves, as individuals, as a family or as a community, is selfish, but it is a very important element. We should not ignore it; we should not look down on it. There is nothing wrong with it, but that is not the only aspect of human beings. Real human beings are multidimensional. [Another] important dimension is also ‘selflessness.’ ... Some say: ‘Why don’t we build another kind of business, based on selflessness?’ We can have one under ‘selfishness’ and we can have another under ‘selflessness,’ and that’s the business to change other people’s lives—to touch other people’s lives.”

“The moment you can create a selfless business or what I call a ‘social business,’ the money becomes endless. Recycling profits, you can repeat that as many times as you want, because it is self-sustaining. That is the strength of social business. Once we introduce social businesses into the system, the system becomes more balanced; today it is unbalanced, and we have created so many problems around us,” Prof. Yunus shared.

Prof. Yunus also encouraged the audience to consider that, “The power of the imagination is the most important thing. So I hope, in your spare time, if you want to do something, pick one problem that you see ... [and] do something around that problem. Create a social business. ... Don’t try to solve the problems of the whole

Thursday, April 9, 2010

10:45 AM – 12:15 PM

Lenana Hall

Panel:

Chair: Prof. Muhammad Yunus, Managing Director, Grameen Bank, Bangladesh

Mr. Hans Reitz, Founder and Executive Director, Grameen Creative Lab, Germany

Mr. Jean-Philippe de Schrevel, Founder and CEO, Bamboo Finance / BlueOrchard, Switzerland

world, just try to solve the problem of 5, 10, or 2 people, and don't try to jump to do it in Kenya, Botswana, or Bolivia; do it your own neighborhood, wherever you are. If you are in Boston, in San Francisco, or London, do it right in there. That's what the challenging task is. If you don't know what to do, for example, you can ... [go where] people are on welfare, [and get] 5 people out of welfare—that's a great thing; create jobs for 2 people—that is a great thing, as a social business—not to make money for yourself. ... So it all can be done in a small way. The moment you have done it, in a small way [you] are successful, you have developed the miracle seed; now the seed can be planted all over the world.”

We created Grameen Danone Food Company to address the malnourishment of children in Bangladesh because in Bangladesh ... [which has a population of 150 million people], half of the children are malnourished.... What we do is produce ... a social business yogurt; it contains all the micro-nutrients that children are missing. We put this into the yogurt, and sell it to children, particularly poor children. We make it very cheap, so that everybody can afford it. If a child eats this yogurt over 8-9 months, the child regains all of the [necessary] micro-nutrients and becomes a healthy, playful child,” Prof. Yunus explained.

In addition to Danone, Grameen Bank has forged strategic partnerships with Adidas, known for their expensive sports shoes, to solve two social problems: malnutrition and disease prevention, respectively.

Prof. Yunus asserted, “Shoes are a very important health intervention because many of our diseases come through the skin of our feet, particularly parasitic diseases, like hookworm ... because we are barefoot. So we want to make shoes that children and adults ... [will] wear all the time; not just to wear on Eid Day or festival day.... Most don't want to wear out their shoes because they are so expensive.... They will carry [their shoes] on their shoulders and walk barefoot ... [and then, when] they reach their destination ... [they will] wear their shoes. That's not the kind of shoes we are talking about; we are talking about shoes that are always wearable.”

“We have a joint venture with Adidas. ... They invited me [to talk to them and] I said, ‘Why don't you start with a mission statement for yourself ... like ... Nobody in the world should go without shoes. ... As a shoe company, it is our responsibility to make shoes affordable to even the poorest person. They were shocked. Then they said, ‘Okay, maybe we should do that.’ Then they had hours and hours of discussions among themselves, and in the end they decided, yes, they wanted to take the challenge. They asked me how cheap the shoe should be in order to be affordable to the poorest people. I said, ‘I don't know, maybe the shoes should be [less than] one dollar.’ They said, ‘You are a very tough man.’ I said, ‘I am not a tough man, the situation is very tough. But you are Adidas; you can take these tough questions and respond to them’. They took the challenge and created a company with us called Grameen Adidas Company to produce shoes for poor people at [something like] the price level ... I suggested. They will start marketing the shoe in the next 3-4 months in Bangladesh. If that works, we will spread it all over Bangladesh and hopefully other countries [as well].”

The following speaker on the panel was **Hans Reitz**, Founder and Executive Director of the Grameen Creative Lab in Germany, who shared his great passion and inspiration for social enterprise development with the Summit attendees. “I saw there

is an enormous [amount] of goodwill in people around the world who want to work with Prof. Yunus, and want to work for the Grameen family and this enormous power from Bangladesh,” he remarked. “Then I said we need the creativity of the people, every different kind, from NGOs to young students, even students who are 14, 15, or 16 years old who want to do something. They want to create social businesses. So we [developed] something called the Grameen Creative Lab, so that we can interact with all the people who want to know exactly what a social business is under the principles of Prof. Yunus.”

Mr. Reitz continued by explaining how the Grameen Creative Lab takes ideas and turns them into actionable projects and social enterprises. “We work not only with big companies, but also [with] NGOs, students, start-ups, small to medium size companies, and people in government, so [that] we have a holistic view and we [can] see possibilities within each field to [engage in] social business. Then I hire people from Boston Consulting, Bain Company and other top people and bring them into the Grameen Creative Lab to share best [practices] from the business community. At the same time, I talk with a lot of NGOs and talk a lot with people who have 40-45 years of experience in the field. The next step at the Grameen Creative Lab is to try to learn, day by day, what is a social business. ... We have to [keep] a full focus on the social issue, and the business is shaped [around solving that] social problem.”

“[Additionally, the business has to be] self-sustaining, so that it doesn't lose money – otherwise it's not a business,” Mr. Reitz advised. “Yes, we make money, but we don't take money. You never can manage a business on zero, so you have to make money, but you don't take the money. The owner doesn't get a dividend, but the owner can have the whole investment back. And if you have all the investment back, the profit of the company stays in the company to maximize the social issues. We have a very high environmental conscience and pay market [rate salaries] for people who work for the social business. If you work for the BSF or work for the social business BSF you get the same money and the principles have nothing to do with it, we do it out of joy, with joy.”

The final panelist was **Jean-Philippe de Schrevel**, Founder and CEO of Bamboo Finance/BlueOrchard in Switzerland, who shared examples of the great work his organization does and the investments they make. “The sizes of the problems we are trying to solve are so big that just charity will not do it,” he acknowledged. “We believe that private entrepreneurship and private enterprise is the real engine for economic growth. We need fantastic entrepreneurs ... with great business ideas, talent, and energy to go and change the world through enterprise, and fuel for entrepreneurship is private capital. Believe it or not, there is plenty [of capital] in the world and it needs to be redirected to companies that are pursuing goals of poverty alleviation and social impact, that's what we really believe.”

“Two days ago we were in the session with Blue Orchard and somebody asked me, ‘Is profit bad?’ That's an interesting question. We don't believe profit is bad, we believe that profit is the condition for sustainability and continuity and scalability of your business, and if you are in the business of social impact, then profit is the condition for scalability of your social impact.... If you make a profit, usually, you will be able to leverage your initial capital, accelerating the scale of your business. We don't need to take away the profit that is made by companies; we can plug it back ... [into] the company, and even if you take it away, you can use the profits and

dividends that you take away from the business and invest it in other businesses, or do charity. So, in itself, profit is not a bad thing; it's what you do with [the profits] that is important. That's what matters," Mr. de Schrevel explained.

"Profit making, profit distribution, it's not only about distribution of dividends," he continued. "You can distribute dividends or profits in a smart and creative way; you can say ... in my business, I will serve different types of customers, and on some of them, I will be making a regular profit, and I will use that profit to cross-subsidize people that can't afford those products. I will cover markets and clients that would not have been able to be covered by those companies and losing [a bit] of profit, but I am happy to do it because I am helping another segment of people that would not be my natural customer, so cross-subsidization is a mode of profit distribution and it's good."

"What is our [social enterprise] investment approach? When we started two years ago, we had no clue about what a social entrepreneur would need. Is it debt? Is it private equity? ... So we created a fund that would do everything. ... Over the past two years, we reviewed more than 330 opportunities for investment, and then boiled them down to 76 opportunities in which we have engaged as a social investor. We have only approved 11, which means that we have a 3% success ratio from the first conversation to our investment portfolio," he remarked. "We are everywhere. We are in Central America, Africa, Kenya, Mozambique, South Africa, India, Pakistan, Vietnam, Laos and it's just the beginning, it's only [been] two years. It's [only] seven of us, a small team, traveling extensively, but we believe we can take this much further, [get] much larger ... and be copied. And hopefully [we can] change the system from within and [inspire] the traditional banks, the traditional fund managers, and the traditional private bankers to think in other ways. ... We have invested \$25 million today, in [11] great businesses that will be replicated in the future and we will be looking for more."

"If people and other entrepreneurs have good ideas locally, why not help them? ... They are local, they know the people, have good ideas, and they usually invest in smaller ticket [enterprises]. We help them—we invest in them—and maybe we co-invest later – fantastic. ... We invested in a chain of bakeries and cafes employing formerly trafficked women that have psychological problems trying to find a regular job. Excellent—this is very social. Should we be making money? Well maybe—I don't know. But I think it's important to invest."

"Care Cross is a South African company offering medical insurance for middle-income people, and they are now going to [serve the] ... lower income people segment. They have reached five million people over the last ten years and have built a progressive network of 4,000 doctors in South Africa with their own pharmacies and their own laboratories. Now they have developed a product ... [which will insure] all low-income employees of large corporations or small corporations in South Africa ... [for just \$20 per month]. [They] will be fully insured medically, including [the cost of] HIV treatment. And we feel that this is a very social investment. We have the potential [to go] throughout South Africa with this company, using the strength of the middle-income segment to go down to the low-income segment. We feel it's a nice opportunity. Shall we be making money with that? We don't know – probably—but then so what. We I have the power to change

access to medical insurance for low-income people in South Africa,” Mr. de Schrevel declared.

“Financial return is not a bad word in our opinion,” he concluded, “it’s a way of attracting more capital to the same sector and ... the profits can then be reinvested and then we go on and on and on. ... If I take a conservative approach to all my business investments in the portfolio, I think I will return, over 10 years, an internal rate of return of 15% to my investor. Is this bad, is this good? I think it’s good, because with this return I will be able to attract more investors and more capital. [Then I] will be able to scale businesses more aggressively and be all over the place. And then hopefully ... be copied, be competing against [others], and that will build an industry of asset managers caring for social businesses. Or if you want ... we invest in base-of-the-pyramid for profit companies that do have a direct and excellent social impact. That’s what we like.”

Prof. Yunus closed the workshop with these concluding comments: “Social business is a business to solve a problem, not just a business to do good to people in general. You have to have very specific ideas about what you want to do. So you start with a problem first and design a business based on how to attack that problem. ... I give the example [of] Grameen Danone, whose objective is to reduce ... and ultimately eliminate malnutrition among children. So it’s a very specific thing. ... If this yogurt company was a profit making company in Bangladesh (Grameen Danone), you’re asking your CEO how much money you made this year, because it’s a profit making company. And if you’re not satisfied, you’ll make harsh comments about your CEO for not performing well. But since it’s a social business ... the question in this case would be, ‘How many children got out of malnutrition this year?’ And if you’re not happy, you’ll be screaming at your CEO, ‘You didn’t do a good job!’ If he’s done a good job, you’ll applaud him for doing a good job and you say, ‘How many more children we should attempt to make to come out of malnutrition next year?’”

“[Another] question is, ‘Who are the beneficiaries?’ It comes with objective [of the social enterprise] itself. If it is addressing the malnutrition of children, then, of course, children are the beneficiaries. ... If it is job creation, [then] those that got the job, they are the beneficiaries. So it depends on what is the objective for which you created the social business.”

“When Danone wanted to do the social business in Bangladesh, they got into the problem, where should this money come from? ... Because, [as you know,] company management cannot use company money to start this [social] business. ... So they are in a big fix; [and] they come up with a very smart idea.”

“During [the Danone] annual general meeting, they circulated a letter to all the shareholders of the company saying that, ‘This year we’ll be announcing a dividend of XXX much, but let us tell you [what] we’re going to start. We’re looking at a program in Bangladesh ... that is a social business. This will not give you any dividend, [but] it will produce results in terms of eliminating malnutrition ... [among] children. ... You will not get any dividend out of it. Those of you that are interested in it, please sign up on this piece of paper. [Please tell us] what percentage or dividend you would like to invest ... which will go into ... this [social] company [in Bangladesh].’ Ninety-eight percent of the shareholders signed up. ... Grameen

Danone needed only small amount of money—just about one million dollars – [but] they came out with something like \$35 million dollars. So they went to the stock market in Paris and created a whole fund called Danone Communities Fund, so that ... anytime they have another social business, they can invest from here, so that they don't have to touch the company's money. So this is how they distinguished themselves, and how this little company in Bangladesh impacted the giant company of Danone.”



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