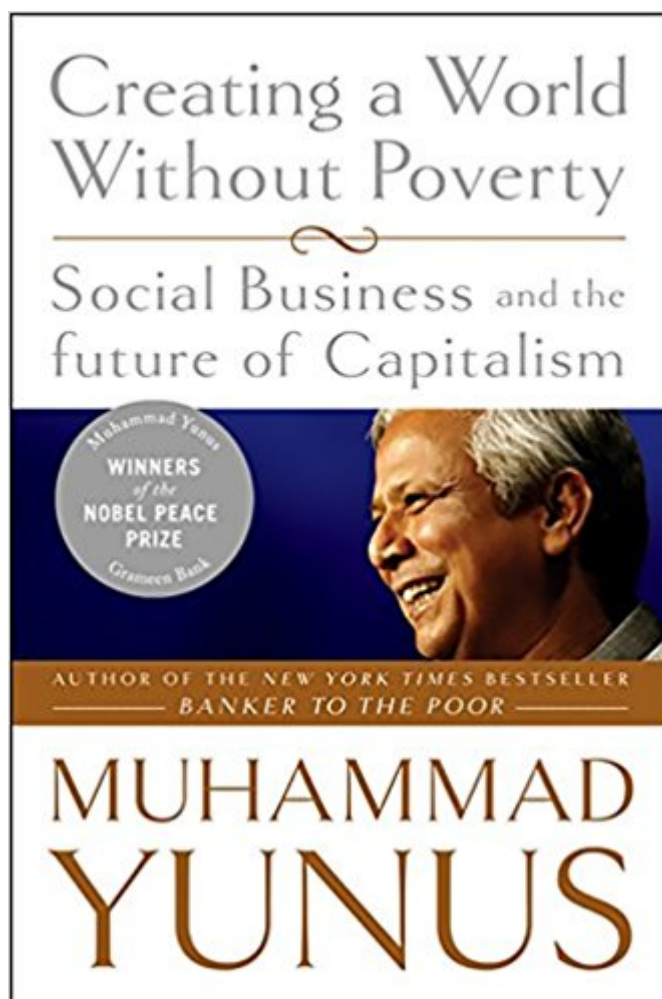


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Creating A World Without Poverty: Social Business And The Future Of Capitalism



Synopsis

In the last two decades, free markets have swept the globe. But traditional capitalism has been unable to solve problems like inequality and poverty. In Muhammad Yunus's groundbreaking sequel to *Banker to the Poor*, he outlines the concept of social business—business where the creative vision of the entrepreneur is applied to today's most serious problems: feeding the poor, housing the homeless, healing the sick, and protecting the planet. *Creating a World Without Poverty* reveals the next phase in a hopeful economic and social revolution that is already underway.

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Customer Reviews

Economics professor Yunus claims he originally became involved in the poverty issue not as a policy-maker, scholar, or researcher, but because poverty was all around me. With these words he stopped teaching elegant theories and began lending small amounts of money, \$40 or less, without collateral, to the poorest women in the world. Thirty-three years later, the Grameen Bank has helped seven million people live better lives building businesses to serve the poor. The bank is solidly profitable, with a 98.6% repayment rate. It inspired the micro-credit movement, which has helped 100 million of the poorest people in the world escape poverty and earned Yunus (*Banker to the Poor*) a Nobel Peace prize. This volume efficiently recounts the story of microcredit, then discusses Social Business, organizations designed to help people while turning profits. French food giant Danone's partnership to market yogurt in Bangladesh is described in detail, along with 25 other

businesses that operate under the Grameen banner. Infused with entrepreneurial spirit and the excitement of a worthy challenge, this book is the opposite of pessimistic recitals of intractable poverty's horrors. (Jan.) Copyright © Reed Business Information, a division of Reed Elsevier Inc. All rights reserved. --This text refers to an out of print or unavailable edition of this title.

"An inspiring volume, full of practical information for people who are motivated to try out his ideas." Business Week

With all due respect to this Nobel Prize-winning leader in building businesses that serve the world's poor in innovative ways, the second half of this book is flawed in its appraisal of the likelihood, or even the usefulness, of transforming the global structure of capitalism and creating a new economic model of "social business," which the author defines as businesses funded by investors who only expect to get their initial capital investment back. Breaking even in their operations would be the minimum expectation for such businesses, with long-term expectations that any operating profits would be put back into the business. This is a more aggressive business plan than the typical non-profit business model, so this is certainly a business model that has its useful applications. If such a business succeeds, the capital returned to the investor can be re-invested in a different "social business" entity. This different business would not have to compete with charities for new funds, making such funds more available to charitable entities that have no hope of ever operating profitably. That is a good thing, and is a good reason to hope for each such "social business" to succeed. All of the author's goals for helping the world's poor to help themselves are admirable and some are achievable, but a good deal of what he describes and prescribes in this book completely ignores most investors' justified expectation of the return of the capital they invest and a reasonable return on that capital. That expectation to actually get back more from their investment than they originally invest doesn't make them greedy, but it does mean that we should not expect a large portion of the world's people with investable capital to "invest" that capital in operations that only return their original investment and do not also provide them with a positive return on their investment.

I have commented Muhammad Yunus's "Creating World Without Poverty" and "Social Business and the Future of Capitalism" in my blogposts. If you allow I use them here as well: Muhammad Yunus's "Creating World Without Poverty" and "Social Business and the Future of Capitalism" describes

a fantastic idea and the implementation of this superhuman task: to extend credit to the most poor and to establish social businesses. A remedy from below. He is successful: Grameen (his bank) methods are applied in projects in 58 countries, including the US, Canada, France, The Netherlands and Norway. He and Grameen Bank are winners of Nobel Peace (!) Prize. I mentioned professor Yunus, laureate of Nobel Peace Prize, banker of the poor the other day. I am sending you now two pages of his book, to illustrate the difficulty of his (and his Grameen bank's) task: ten points of conditions to be achieved when they lift a family out of deep poverty. All of the 10 conditions must be realized for not counting them poor. In other words this is the level of poverty in Bangladesh. (Sorry, I am unable to post the two pages, you may find them in my www.ahalmos@wordpress.com , July)

Creating a World Without Poverty: Social Business and the Future of Capitalism, Muhammad Yunus, Public Affairs, 2007 Muhammad Yunus is a hero to those of us who seek to broaden the ownership of business. As a Bangladeshi economics professor, he wanted to do something about the crushing hunger and poverty he saw around him. He gathered 42 borrowers from the village near his campus and lent them a total of \$27 from his own pocket. He followed that by guaranteeing bank loans to the poor. In 1983, he started Grameen Bank, which shared with him the 2006 Nobel Peace Prize. The results, from his acceptance speech: "Today, Grameen Bank gives loans to nearly 7.0 million poor people, 97 percent of whom are women, in 73,000 villages in Bangladesh. . . . Since it opened the bank has given out loans totaling about US \$6.0 billion. The repayment rate is 99 percent. Grameen Bank routinely makes a profit. . . . 58 percent of our borrowers have crossed the poverty line." Grameen Bank has become the model for a worldwide microcredit movement. By 2006, microloans had been extended to 100 million of the world's poorest families. In this book, Professor Yunus argues for a new structure, the "social business," which is "a business that pays no dividends. It sells products at prices that make it self-sustaining. The owners of the company can get back the amount they've invested in the company over a period of time, but no profit is paid to investors in the form of dividends. Instead, any profit made stays in the business--to finance expansion, to create new products or services, and to do more good for the world." Governments, charities and "profit-maximizing businesses" are not enough to solve the problems of poverty, disease and environmental degradation, Professor Yunus argues; "we need a new type of business that pursues goals other than making personal profit--a business that is totally dedicated to solving social and environmental problems." He makes a distinction between social businesses and "socially-responsible" businesses, which are intended to serve a social objective, while making a

profit. They have a fatal flaw, according to Professor Yunus, because their executives "will gradually inch toward the profit-maximization goal, no matter how the company's mission is designed." The social business is intended to make a profit, but not to pay dividends. It would plan to pay back the amount invested over time, which might be from five to 20 years. Shareowners would continue to own the business after they were repaid their investment. The motive of making a profit on the shares would be replaced by pride in achieving a social objective. Many of the investors would be individuals and institutions that make charitable gifts. They would see the benefits from a business that was to return their funds, which they could use to invest in more social businesses. (However, earning enough after-tax profits to cash out investors in five to 20 years is a big hurdle for a new business. It could put the social business at a real competitive disadvantage in pricing its products and services. Most U.S. businesses don't pay any dividends, while many others keep dividends at less than a three percent yield on the shares' market value.) "Who will invest in a social business?" This question is a section of the book. The answer given is that money will come from people who would otherwise support charities, as well as from charitable foundations and from businesses that fund charitable activities. A tax exemption could provide government support for social businesses. Shares in social businesses would be traded in aftermarkets, with the value determined by "the social benefit produced," rather than profit expectations. What about capital needs larger than those served by Grameen Bank and the microcredit movement? The book lists some 25 members of the "Grameen Family of Companies," which include social businesses and support organizations. Grameen Fund provides venture capital, taking a 51% equity ownership. Grameen Business Promotion Company guarantees loans from Grameen Bank of up to \$10,000 or more. Grameen has recently entered joint ventures with Danone, the world's largest yogurt company, and Intel. A huge potential project described is "to create world-class port facilities for the growing economies of Bangladesh as well as her neighbors, and to build a network of superhighways to connect those countries with the port facilities." The money would come from "social investors" or donor countries, who would later sell the project to a trust. In turn, the trust would sell "shadow shares" to poor people. These "shadow shares" would not represent ownership of the facilities but would entitle holders to any dividends declared by the trust board. Shares could be purchased on credit, to be paid from dividends. The shares could only be sold back to the trust. (If this project goes forward, perhaps Professor Yunus would consider having the shares be direct ownership, with voting rights, so that the poor families could be part of a community of business owners.) Grameen Bank's great success flies against some basic economic assumptions, according to Professor Yunus. One is that "all people are motivated purely by the desire to maximize profit." (By "fear and greed," in Wall

Street terms.) Another "is the assumption that the solution to poverty lies in creating employment for all." Self-employment is the alternative supported by Grameen Bank. Millions of its borrowers have crossed the poverty line because they now have earnings from both their labor and their invested capital. (The next progression is when individuals have enough income from their capital alone that they don't need to sell their labor. They can be the ones who devote their time, and discretionary investment income, to solving social problems.) There is a brief section in the book that describes a second kind of social business, one "owned by the poor or disadvantaged" where "the social benefit is derived from the fact that the dividends and equity growth . . . will go to benefit the poor." Grameen Bank itself is "a social business by virtue of its ownership structure," since 94% of its shares are held by its borrowers. In 2006, it earned \$20 million and paid dividends to its shareowners. The error of most programs to alleviate poverty, Professor Yunus writes, is that they assume that providing jobs and job skills is what is needed. "But if you spend enough time living among the poor, you discover that their poverty arises from the fact that they cannot retain the genuine results of their labor. And the reason for this is clear: They have no control over capital. The poor work for the benefit of someone else who controls the capital." (Beyond microcredit could be broadening the ownership of capital so that the formerly poor can become independent of the return on their labor.)

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