

JOURNAL OF

ISSN 1529-0905

Bangladesh Studies

VOLUME 9 NO. 2

2007

TABLE OF CONTENTS

From the Editor

Syed S. Andaleeb iv

ARTICLES

Democratic Performance in Bangladesh 1991–2006:
A Political Measurement

Jalal Alamgir 1

Democracy in Bangladesh: From Crisis to Sustainability

Haider Khan 13

The Foreign Trade of Bangladesh: Its Composition, Performance,
Trend, and Policy

Mohammad Mafizur Rahman 25

Changing the World Using Social Business: Breakthrough
Ideas from Nobel Laureate Muhammad Yunus

Munir Quddus 37

Focus on Women: Development for Empowerment or Business?
A Review Essay

Elora Halim Chowdhury 44

TABLE OF CONTENTS

From the Editor	Syed S. Andaleeb	iv
 <i>ARTICLES</i>		
Democratic Performance in Bangladesh 1991-2006: A Political Measurement	Jalal Alamgir	1
Democracy in Bangladesh: From Crisis to Sustainability	Haider A. Khan	13
The Foreign Trade of Bangladesh: It's Composition, Performance, Trend, and Policy	Mohammad Mafizur Rahman	26
Changing the World Using Social Business: Breakthrough Ideas from Nobel Laureate Muhammad Yunus	Munir Quddus	38
Focus on Women: Development for Empowerment or Business? A Review Essay	Elora Halim Chowdhury	45

Changing the World Using Social Business: Breakthrough Ideas from Nobel Laureate Muhammad Yunus

Munir Quddus

Abstract

Although capitalism is the economic system of choice in the 21st century, most critical analysts have come to realize that capitalism is not perfect. Free markets often stumble and importantly, have not been able to solve some of the most vexing problems faced by humanity – poverty, malnutrition, economic disparity, lack of health care, unemployment, and environmental degradation – to name a few. Professor M. Yunus steps in with some innovative ideas presented in a new book. He has proposed a new business model that he calls “social business” run by social entrepreneurs not for maximizing profits for its owners and shareholders, but for solving societal problems. This article examines the idea of social business and its many implications. The literature on the subject of creatively using markets to battle poverty and other social problems is bubbling with innovative ideas and practices. These trends have the potential of changing capitalism as we know it and usher in a much improved world for all people.

Introduction

In the 1930s Western industrialized economies were caught in a deep recession, an economic crisis of global proportions. Policy and action prescribed by the best economic minds of the generation could not find a solution. When capitalism seemed doomed, John Maynard Keynes published his path breaking book (*The General Theory*) which put the conventional economic wisdom (the Classical model) on its head. Critics pronounced Keynes a closet socialist bent on undermining capitalism. Keynes responded that his prescription for increased public sector spending, with borrowed funds if necessary, would strengthen capitalism by eliminating the extremes of business cycles. The “Keynesian revolution” in economics, proved prophetic as the world economies emerged from the great depression buoyed by massive government spending, partly military and partly civilian.

Globetrotting economist and micro-credit guru, Muhammad Yunus’s ideas in his new book, *Creating a World without Poverty: Social Business and the Future of Capitalism*, are no less ambitious. Since the fall of the Berlin Wall, the collapse of USSR, and the spectacular embrace of free markets in China, today capitalism is the dominant economic system in the world. Socialism and Marxism stand squarely defeated. However, capitalism is not perfect. Even in the richest capitalist economies problems of poverty, malnutrition, economic disparity, pollution, unemployment, illiteracy, and lack of health care have persisted along with abundant wealth. Rampant globalization has created emerging economic giants like China and India, albeit with frightful impact on the global resources and the environment. The resulting environmental degradation is leading the

Globe towards a catastrophic outcome. Can we do something to save the societies from the undesirable side-effects of unbridled wealth creation based on the economic models of profit maximization and unabashed greed?

How Can Private Business Help Eradicate Poverty?

According to Yunus, there is a better way. In his new book, he offers the vision of a new type of business and a viable plan of action to save the world from the excesses of free markets and globalization. This business model, called a Social Business (SB), would be privately owned and managed, but for the common good, especially to eradicate poverty.¹ Yunus challenges business leaders, policy makers, economists and especially the younger generation to re-evaluate their pre-conceived notions of capitalism, and to imagine a different world, where economic freedoms are consistent with sustainable development and the poor will be direct participants and beneficiaries of globalization and economic growth instead of waiting for the “trickle down effect.”

The book with 11 chapters and 261 pages is dedicated to “everyone who wants to create a world where not a single person is poor.” Written with Carl Weber and published by the venerable publishing house PublicAffairs, the book is eminently readable and accessible. One of Professor Yunus’s great talents is the ability to communicate with a wide range of audience. He is equally at home meeting Presidents and Prime Ministers, business leaders of the largest global companies, and the poor illiterate village women who form the vast majority of clients (and shareholders) of the institution he founded, the

Grameen Bank. Despite his doctorate in economics from Vanderbilt University, he writes (and speaks) at a level easily understandable by the ordinary citizen. On January 12, 2008, this book was on top of the list among titles in “poverty” category in Amazon.com. It could become a best seller like his previous title, *Banker to the Poor*, released in 1998. M. Yunus on a multi-city book tour in America and Europe drew huge crowds in many cities, testament to the fact that there is hunger for new ideas and alternate solutions to the unbridled free markets, excessive consumerism, and their unpleasant side-effects.

What about Governance?

Readers who idolize M. Yunus and his work – and there are thousands all over the world – will enjoy reading the book. They will find that the author, one of the most respected and influential elder statesman in the world, offers the “next big idea” to solve economic problems faced by humanity at this critical juncture. At 67, he is in robust health, at the peak of his creativity and entrepreneurial talents, still displaying enormous energy and enthusiasm for his life work. Since receiving the Noble Prize in Peace in 2006, a lot has happened in the author’s life that has kept him in the public eye.

Western readers may not be aware that Dr. Yunus generated plenty of media attention, not all positive, when he announced his intention to enter the political arena, provided he receives sufficient support from ordinary citizens and the larger civil society in Bangladesh. His message of an honest and competent government, emphasis on policies to end extreme poverty, proven track record as a credible spokesperson for the poor, and general optimism galvanized many ordinary citizens and professionals, previously apolitical, to consider the possibility of joining the political process. He announced the name of the planned political party and started preparations to campaign in the forthcoming elections in Bangladesh. Many believed that this would be a welcome break from the corrupt governance and dynastic politics that has plagued Bangladesh since its birth in 1971. There was both excitement and bitter opposition (from the existing parties) to his plans. However, given that a well-meaning neutral administration of professionals was working hard to implement many of the reforms he supports, Yunus eventually decided to step back from his brief foray into the political arena to give his undivided attention to what he does best –speak on behalf of the poor and offer creative solutions to solve global poverty.

In the new book, Yunus makes a compelling case for

saving modern capitalism and free markets from greed, speculation, exploitation, and other market excesses. The new type of organization he proposes – Social Business (SB) - will complement the public and private sector, and one day could become so dynamic and large that it would usher into a world free from the worst forms of poverty and deprivation. The people who would create and run the cause-based new businesses are expected to be social entrepreneurs committed to harnessing the power of free markets for achieving social change. The new business model differs in important ways from the traditional model of the non-profit firm, and certainly from a charitable organization. The typical non-profit do not have investors who can withdraw their original investment and walk away. The charitable organization must constantly depend on the generosity of donors and patrons to continue its operation and achieve its mission. This takes away valuable time which could be devoted to improving the business.

The Significance of the Private Sector

What will be the mission of SB as an organization? Who will create and own these businesses? Who will buy their products? What would be the business model? What regulatory framework will support these companies? Yunus answers many of these questions in the book, giving some concrete examples of how through the family of “Grameen” businesses, and recently in partnership with Danone, a French multinational company (known as Dannon in the US), some of these ideas have already been tested successfully with products, customers and management teams.² Given many of the ideas are new and untested in theory and practice, only time will tell if these ideas are feasible in the developed as well as underdeveloped economies, and the particular hurdles they might face.³ Professor Yunus is hopeful that students and faculty in business schools will further study ideas he presents by including social business themes in the B-School curriculum and in their research emphasis. Given the study of entrepreneurship, including social entrepreneurship, has witnessed a boom in business schools with thousands of students taking courses and completing programs, this is not farfetched.⁴ There is a hunger among the new generation for an alternate model of employment where they can use their skills to earn a decent living and at the same time contribute to building a more humane society.

What do we know of the “business model” for the SB type of firms? According to Yunus, the mission of a social business is to meet one or more of the many

neglected or unmet needs of the society, especially the needs of the poor households – those at the bottom of the “income and wealth pyramid” a term coined by C. K. Prahalad.⁵ It is important to ensure that a sizable demand exists for the product or service supplied by the social business – so that there are customers willing and able to pay a price necessary to cover the production costs and a generate a small surplus in the long run; this will ensure the ability for the business to sustain, innovate, and expand in the future. The SB firm will be a “no-loss” entity so that the initial investment is preserved allowing for a continuous re-cycling of the capital. The firm will also be “no-dividend” so that the surplus instead of being dissipated will be re-invested for future expansion and innovation.

Why should anyone invest in a non-profit firm with no promise of a financial return? Why would entrepreneurs get involved in projects that would yield no profits for them and the shareholders? According to Yunus, the fundamental nature of human being is to help fellow humans to make the world a better place. The financing will come from individual investors or from large businesses, charitable foundations, or organizations such as pension funds. Anyone can invest in these ventures, since the urge to make the world a better place is universal. Yunus is not calling for replacing the existing businesses with the non-profit, but for the new SB to complement (and in cases to counter the negative consequences of) the for-profit private sector. Yunus is a visionary and an optimist—he believes one can tap into the “social consciousness” of the citizens, the philanthropic sector (e.g., Bill and Melinda Gates Foundation) and even the for-profit sector for financing these SB ventures. If the product or service provided by a SB is not specifically designed to meet the needs of the poor households (e.g., micro-finance), at least the ownership structure of the business should ensure that the poor households benefit from the surplus generated by these businesses.

Micro-Finance—A Brief Historical Perspective

The genesis of the Grameen Bank, Yunus’s first social business, is now familiar to many. In 1972, as a famine ravaged the countryside not far from the campus where he taught, Yunus felt compelled to do something to alleviate the suffering of the poor. He decided to set aside his books and lecture notes, and to learn what causes poverty directly from the poor. Under his supervision his team of students using simple surveys instead of high powered computer models academic economists like to use, arrived at

results that were dramatic. Their research revealed that the poor are held back not by a lack of effort, or disease, or even a lack of education, as much by the existing institutional set up – in particular an entrenched banking system and culture that refused to extend credit to them for legitimate (small) business investments. With no access to institutional credit, the poor become hostages in the hands of the village money lenders (loan sharks). As a pilot project, he loaned \$27 from his own pocket to help several poor households free themselves from the money lenders’ trap. He was pleasantly surprised when the poor households returned all of the borrowed funds on schedule. He approached the local banker to convince him that there is large market for credit in the villages. The banker was amused. How can the poor be bank customers when they have no assets to be used for collateral? Eventually, after much determined effort, networking, and support from the Central Bank and the Ministry of Finance, Yunus was able to establish his own bank specifically to help the poor households in the countryside, something the traditional public and private banks were unwilling to do. The Grameen Bank (GB) was formally established in 1983. Will it become yet another institution created to help the poor that ends up ignoring their needs? Fortunately, it has lived up to its promise. Some twenty five years later, the GB has disbursed over 6 billion dollars in small loans (micro-credit or micro-finance) to more than 7 million (mostly women) clients at the bottom of the income and wealth pyramid. As a result of these loans and by their hard work and entrepreneurship, a few million households have succeeded in permanently escaping poverty. With a 98% repayment rate, the bank has been profitable, without any new donor funds, for most years of its existence, despite a few serious crisis caused by natural disasters. This story retold in his 2006 Noble Peace Prize lecture is included in the Epilogue chapter of this book.⁶

From Micro-Finance to Social Business

The book brings together the essence of Dr. Yunus’s thinking on poverty alleviation using innovative techniques and approaches.⁷ After speaking for the past few years on the importance of social-objective-driven businesses, and having created a few, he has arrived at the conclusion that a new breed of business model (social business) is the best way to impact global poverty and related problems within the context of capitalism and free markets. Yunus recommends fighting poverty not with profit maximizing businesses, nor with an expansion of the public sector, but rather with socially conscious businesses that are sustainable and built to directly

alleviate social needs and poverty. Professor Yunus is suggesting an important alternative to rampant globalization where powerful multinationals and local monopolies and corrupt politicians and bureaucrats rig the institutional framework to exploit the poor, rather than serve the low-income in a win-win framework.⁸ His hope is to get both young entrepreneurs and more experienced business people interested in the idea, provide a working model and help create a supportive environment. With the right leadership, once a critical mass is reached and a few successful models come to exist, this could become a movement for change. Fortunately, all over the world, enlightened and ambitious activists – social entrepreneurs – are already busy at work using unconventional business models to solve vexing local problems.⁹

The book is full of innovative ideas, the hallmark of Muhammad Yunus. Is it possible to eliminate poverty worldwide through micro-finance and other unconventional means that represent fresh out-of-the-box thinking? I believe it is. Social Business creates a type of business and investment opportunity that takes the best features of the private sector (incentives, problem solving, commitment to customer needs, and efficiency) and compliments it with the best of the public sector (produce a good or service that meets the society's needs at a price affordable by the poor households). Such an entity would have an edge to the philanthropic model since it does not depend on extended goodwill of the donors, and importantly, does not perpetuate dependence on the part of the recipients.

Yunus argues that the traditional business models and economic theories of capitalism are inadequate – they neither fully explain the facts on the ground, nor do they envision a world free of poverty.¹⁰ The theories are often based on overly simplistic assumptions (profit maximization is the only reason for a firm to exist, or entrepreneurship is a rare skill). Worse, the defenders of capitalism and free market are blinded by ideology, and refuse to recognize that capitalism as an institution is less than perfect - the fault is not with the incomplete markets and other problems such as monopoly (“market failures”), but with the model itself (“conceptualization failure”). As a result, when the real world markets produce undesirable results – such as a continuation and even increase in poverty, disparity, and deprivation – economists are unable to explain or offer good solutions. Like the famous British economist, John Maynard Keynes, who presented a critique of capitalism during the depression of 1930s and proposed a solution – increased governmental spending – to lift the

economies and strengthen capitalism, Yunus presents his case for socially conscious business as a recipe to strengthen free markets, not to replace them. He considers capitalism and globalization to be efficient, but imperfect frameworks for creating wealth and developing societies.

What about trends in modern business where many profit maximizing business (PMB), sometimes prodded by their shareholders, are presenting themselves as socially conscious citizens? The new buzzword is corporate social responsibility or CSR. Yunus considers these trends a positive development, but feels that “hybrid” nature of these commitments is risky. He believes the pressure for higher short-term earnings and higher stock prices from the shareholders will eventually dominate all other (social) considerations. He discusses the positive role played by the NGOs worldwide, and this should continue and even expand. He recommends growing more social businesses since these enterprises are able to harness the powers of free market and entrepreneurial talents, and yet are designed to directly assist the poor households grow their income base.

A Look at the Literature

Dr. Yunus's ideas and prescriptions serve as an interesting contrast to the writings of C. K. Prahalad in his book, *The Fortune at the Bottom of the Pyramid*, where he argues that businesses can “fight poverty through profits,” if only the private sector would learn to take advantage of the enormous size and buying power of the poor household.¹¹ Prahalad argues for a change in thinking among businesses so that poor households - the bottom of the pyramid (BOP) - become the focus for the private sector. He gives many examples of firms in India, some on the fringes and some well established, doing exactly this. M. Yunus holds that the poor should not be looked upon only as potential customers to be exploited. For-profit firms interested in serving the poor should be clear about their motives – they are for-profit and their first loyalty remains to the shareholders. One interesting overlap is the case of Arvind Eye Care started in 1976 by the famous Dr. G. Venkataswamy (aka Dr. V) to eliminate needless blindness in his home state of Tamil Nadu. The highly successful model was based on the concept of serving both the paying patient and the poor (at nominal cost); high volumes will generate a surplus for future expansion.¹² Yunus discusses a similar program undertaken by the Grameen Health Care Services Ltd. a new social business that will set up eye hospitals, capable of performing 10,000 cataract operations annually with the “Robin Hood” pricing.¹³

Theory and Practice—Precursors

It seems the “time is right” for these ideas to impact the real world. A growing number of individuals are taking up the challenge and creating new businesses to deal with local and global problems ignored by the markets. Business schools are taking notice with some changes in curriculum. A few important foundations, notably the Schwab Foundation, the Skoll Foundation, and Ashoka have made important contributions to support the development of ideas and practice in this exciting field. Other foundations, such as the Rockefeller foundation are getting interested. Bill Gates in a recent speech at the World Economic Forum in Davos, Switzerland, spoke on the necessity of moving towards a “creative capitalism” that would generate new business models to solve the most pressing societal problems. Neither the non-profit philanthropic sector nor the for-profit private firms by themselves are able to successfully solve these global problems.

Yunus lays down a challenge, especially for the young. His ideas can be implemented by the energy and the enthusiasm only the young can bring. Much work, conceptual and practical, must be done before the SB model is universally accepted and implemented. If the new generation of entrepreneurs buy into the promise of social businesses, this could become a movement until “poverty is put in the museums.” He believes an overemphasis on consumerism and materialism displaces other values and goals such as sustainability and egalitarian income distribution.¹⁴ The millennial or “generation Y” seems interested in these issues much more so than their parents. They are entrepreneurial and highly socially conscious. SB can be an important vehicle in countering the damaging trends in globalization and achieving the goals of a much more sustainable global economic model.

Yunus makes a strong case that it is possible to create a national and a global economy where the worst form of poverty is eliminated and problems of pollution, food, health care, and access to the basics is ensured for all. Of course he is not speaking of high standards of living by Western measures for all, rather a decent life with basic necessities assured for all. This can be achieved, not through a socialistic welfare state, but rather within the free market framework. The answers to the major problems lie neither in an expansion in government or the public sector, not via unfettered markets and globalization, rather in the right mix of the two within the framework of social business that utilize human creativity and entrepreneurship and incentives to serve one’s own family and ambition and also the society.

Yunus discusses in detail recent work in starting and testing the social business model—a company with the core mission of serving the needs of the poor. The investors do not receive any returns except the ability to withdraw their original capital. The *Grameen Danone* may be the first example of a big multi-national based in the West partnering with a Social Business based in a developing nation to create a joint venture firm designed to meet the needs of the poor using world class technology and business practices.¹⁵ From conception to finish, the mission of the new company was to deliver a product that will improve the nutrition levels of children in poor households. Much conceptual and technological breakthroughs have gone into the product - a tasty but inexpensive yogurt produced entirely with local ingredients and sold at cost price primarily to the children of low income families with children who live in the countryside. A second project is underway— eye care hospitals where doctors will perform cataract surgery restoring eye sights to the elderly poor. The model is based on the famous Aravind Eye Hospital in Madurai, India. The clinics will use “Robin Hood pricing” where the regular patients are charged market price for eye care in order to provide good quality eye care for poor patients at a nominal price.

How viable is the concept of social business? Will the concept work in the developed market economies as well as in developing nations? Professor Yunus believes this alternate model of business is eminently viable and sustainable. He believes that to realize a goal, one has to be able to imagine and believe that this can be done. This is a powerful message that is often ignored. Yunus thinks big, he does not let existing models, mental frameworks, hurdles, and critiques derail or distract him. This is especially the case with his willingness to innovate and adopt simple solutions to seemingly big problems.

There is much more in his new book which captures the evolution of his thinking over the last decade – ideas on how to reform the World Bank, the promise of the modern IT technologies in creating a world of opportunities for the world’s poor, a wish list for 2050 (one must imagine first and then work to implement) that includes a world free of the worst forms of poverty, and without border restrictions, unemployment, and wars. Yunus is a visionary and an idealist – but he is also pragmatic. He speaks with conviction from toiling for many years in the fields conducting social and business experiments to solve the great puzzle of poverty. He is eminently credible

when he preaches that these are not merely dreams, but a vision of what is possible provided a critical number of leaders come to believe that these are achievable goals. This book is a treat from the prophet of the poverty free world. It is a must-read for policy makers, scholars, business people, and the ordinary citizens who care deeply about the future of humanity.

Conclusion

Although the promise of social business, an organization that combines the best features of for-profit and non-profit business is exciting – many hurdles and challenges must be overcome before this model has a major impact. Much work, both conceptual and practical, needs to be done before the promise of the social business is fully realized. Given the existing tax laws, the regulatory framework in the West does not encourage such an entity. Even though Bill Gates has recently spoken on the shortcomings of the existing models to solve societal problems and called for a more “creative capitalism,” most business leaders are still wedded to the traditional profit maximization role of business. It will take time and leadership before a vibrant “fourth sector” emerges to solve societal problems using the energy of free markets. When this happens, we will be grateful to Muhammad Yunus for his ideas, leadership and work.

Endnotes

1. Yunus (2008), p. 22.
2. Ibid, pp. 149-162.
3. It seems the time is right for these ideas. A host of experimental projects have cropped up with similar mission in different parts of the world, somewhat independently. See Bornstein (2004)
4. “Kauffman Foundation Survey Finds Youth Energetic About Entrepreneurship.” 2007
5. Prahalad (2006).
6. Yunus (2008), pp. 237-248.
7. Yunus (1999), p. 251.
8. BusinessWeek magazine had a recent cover story titled “Can Greed save Africa?”

9. Elkington and Hartigan (2008), pp. 1-25.
10. Yunus (2008), p. 18.
11. Prahalad (2006), pp. 3-21.
12. Ibid, pp. 131-136.
13. Yunus (2008), page 99.
14. Ibid, pp. 210-211.
15. Ibid, pp. 129-147; 149-162.

References

- AACSB International (2006), *A World of Good: Business, Business Schools and Peace*.
- Aghion, Beatriz Armendariz de and Jonathan Morduch (2005), *The Economics of Microfinance*, MIT Press.
- Bornstein, D (1999), *The Price of a Dream*, Simon and Schuster.
- Bornstein, D (2004), *How to Change the World*, Oxford University Press.
- Elkington, J and Hartigan, Pamela (2008), *The Power of Unreasonable People*, Harvard Business Press.
- Kristof, N, (January 27, 2008), “The Age of Ambition.” *New York Times*.
- Prahalad, C. K. (2006). *The Fortune at the Bottom of the Pyramid - Eradicating Poverty through Profits*. Wharton School Publishing.
- Strom, Stephanie. (May 6, 2007), “Businesses Try to Make Money and Save the World,” *New York Times*.
- Yunus, M. (1999), *Banker to the Poor: Micro-lending and the Battle Against World Poverty*, Public Affairs.
- Yunus, M. (2008), *Creating a World Without Poverty: Social Business and the Future of Capitalism*, Public Affairs.
- Yunus, M, (February 15, 2008), "How 'social business' can create a world without poverty," *Christian Science Monitor*.

Munir Quddus
Professor of Economics and Dean
College of Business
Prairie View A&M University
muquddus@pvamu.edu