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**COMMENTARY: THE WEEKEND INTERVIEW**

*Muhammad Yunus*  
**Subprime Lender**

By **EMILY PARKER**  
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*Queens, N.Y.*

In a Jackson Heights shop for colorful saris and glittering bracelets, several women have gathered to meet with their banker. They laugh and chat in Bengali. Sultana, a 39-year-old woman wearing a headscarf, hands him \$128 in cash. She is making her first repayment of the \$3,000, six-month loan she'll use to help with her husband's candy store.

Welcome to Grameen America, Muhammad Yunus's brand-new microfinance venture. Mr. Yunus, along with his Bangladesh-originated Grameen Bank, won the 2006 Nobel Peace Prize for battling poverty by lending out small sums of money to the poor. The loans are mainly for income-generating activities -- from making baskets to raising chickens. Since its establishment in 1983, Grameen has given out billions of dollars in loans, helping to pull families out of poverty and inspiring similar operations all over the world.



Ismael Roldan

Mr. Yunus has now brought Grameen to this borough of New York City. Since taking off in January, Grameen America has lent out a total of \$145,000, with interest rates at around 15% on the declining loan balance. The money will be used for everything from taxi registrations to sewing machines. I meet Josefina from the Dominican Republic, who has borrowed money to buy women's accessories to sell.

Grameen works a little differently from your average American financial institution. The Grameen banker comes to the borrowers, either in their homes or businesses. Women borrowers take priority. There is no need for collateral, credit-history checks, legalities or complicated paperwork. Just credit, plain and simple.

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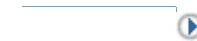


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Mr. Yunus is visiting from "dry, sunny" Dhaka -- a stark contrast to blustery New York. "Snow couldn't stop me!" he declares from a cafe in Manhattan's Grand Hyatt Hotel, where we meet. He is wearing a traditional *kurta* top under a leather jacket.

Mr. Yunus, who cheerfully refers to his business as "sub sub sub subprime," seems unfazed by the U.S. subprime mortgage collapse and the various tightenings of credit that followed in its wake. "If subprime cases are risky, Grameen cases are extremely risky," he says. "Because not only are we poorest, [borrowers] don't have collateral, they don't have guarantees, they don't have lawyers, nothing. How risky can you get? Still, our money comes back." Grameen has claimed that over 98% of their debts are repaid.

I mention that Mr. Yunus's way of doing business seems like an "old-fashioned" notion of credit, which a few centuries back was apparently closer to the Latin *credere* (to believe or trust). To have "credit" in a community, for example, meant that you could be trusted to pay back your debts.

"I use to say this in my speeches, in the early days," he responds. "I said: look at the world, how funny it is. They took the word credit which means trust, and built a whole edifice of credit institutions, refined, very sophisticated, entirely based on distrust." At Grameen, he says, "we went back to the original meaning of credit."

Mr. Yunus would argue that in making credit more easily accessible, he is helping guarantee a fundamental human right. "There are certain items that are listed as human rights: right to food, right to shelter, right to work, right to health . . . but who are going to implement those human rights?"

Some might say that government is responsible. But "that doesn't mean that government has to bring a platter full of food every morning to feed you, that's not what the government could do. Government could not bring health care to every single citizen or work opportunity for every single citizen."

Out of all the rights that he listed, Mr. Yunus says he would put credit as No. 1. "If you agree that each case of receiving microcredit is a creation of self-employment, then my argument is self-employment creates income," he explains. "Income is the thing which brings food. Income is the thing which creates the possibility of shelter, home. And income is the best medicine."

The collapse of the American subprime market has not shaken Mr. Yunus's confidence in credit. Rather, he blames the problem on sloppy business techniques. "They have the collateral, they have the lawyers, they have the entire legal system behind them . . . But they still could not protect themselves. What does it say?" he asks. One, "it says you didn't know how to do business . . . No. 2 . . . you got extra greedy. You overstepped your territory."

Mr. Yunus seems to put more blame on the lenders. What about the borrowers? "When borrowers inflate their demands, you don't know how to screen it," he says of the U.S. system. "In our bank, a borrower can say, I want \$10,000 . . . I don't think any Grameen bank anywhere will give her \$10,000 . . . We know what is the limit within in which we operate."

Well, OK, but given the differences in the sums at hand, comparing U.S. mortgage loans to microcredit may be a bit of a stretch. Mr. Yunus would disagree. If he gives a \$100 loan, and only gets back \$50, that's 50% repayment. If someone gives \$100 billion and only gets back \$50

billion, that's 50% too. So "percentage-wise, repayment-wise," he explains, it's reflected the same way.

Why is Grameen's debt-repayment rate so high? "Self-interest," is one reason. "For the first time, she has been given this opportunity to make money, make an income. Now she has a choice: she can pay back the loan so that she can continue with this door open and she can move on step by step. Or she says, enough is enough, I'm not going to pay back, I'm going to enjoy the money I got. What happens? The door gets closed."

Grameen, crazy as it may sound, "assumes that every borrower is honest." But it does have ways to help ensure repayment. Each borrower joins a group of people from similar social and economic conditions, and the group approves the loan request of each member. In this way, the group assumes "moral responsibility" for the loan.

Mr. Yunus's use of the female pronoun is not accidental. He says Grameen Bank's borrowers are 97% women, the result of a very deliberate policy. It all started when Mr. Yunus complained that Bangladesh's banks weren't lending to women at all. "I was trying to show in how many different ways conventional banking went wrong. So when I began I wanted to make sure that I do not face the same complaint against me. So I wanted to have 50% of my borrowers as women."

He soon came upon another challenge: Women were reluctant to borrow. "But I never gave up," Mr. Yunus says, telling those who were working with him that "when she says 'no,' don't think that it is her voice. It is the voice of history. The history which generated endless fears in her mind, and gave her the feeling she's nobody."

After Grameen got to their desired level, 50% women borrowers, "we started noticing that money going to the family through women brought so much more benefit to the family than the same amount of money going to the family through men . . . So at one point we said, forget about 50-50. Let's focus on women because it changes the family faster."

Mr. Yunus has faced resistance to his unconventional approaches in Bangladesh, a Muslim-majority nation with some very conservative ideas about women. I ask if people accused Grameen of discriminating against men. "Discrimination is a very mild word," Mr. Yunus says. "They said we are destroying their religion because we are giving money to women."

Some protested that women shouldn't work outside, or get involved with money. The man, the argument goes, is supposed to be the breadwinner of the family. Mr. Yunus told his critics to go back and study Islamic history. "The prophet's first job was to work for a woman [Khadijah], who was a businesswoman," he explains. "If you want to be a good Muslim and follow the prophet, you should be looking for a businesswoman to get married to. Because that's what he did!"

Some critics said that in Islam, women are not supposed to go out. Mr. Yunus's response? "That's not true. In Islamic history women were everywhere. They were in the battlefields, they were fighting battles, wars, with the sword in their hands. So what kind of Islam are *you* talking about?"

Mr. Yunus's determination paid off. Grameen, in quiet ways, is helping to empower women. "Every single of those seven-and-a-half million borrowers," he says, has a "personal bank account, and they are accumulating quite a significant amount for themselves." This "immediately establishes ownership because she is the only one who can withdraw money. This is her protected territory."

Mr. Yunus has recently been in the news again, this time linked to Bill Gates, whose recent speech at Davos about the need for a new, "creative capitalism" to help the poor sounds similar to Mr. Yunus's advocacy for "social businesses." Mr. Gates "talks about promoting 'creative capitalism,' which is fine," Mr. Yunus comments. "But he doesn't go all the way [to explain] how that is to be designed."

In his new book, "Creating a World Without Poverty," Mr. Yunus does just that. He defines social business as "cause-driven" rather than profit-driven. And yet, it is not a charity: Its owners are entitled to recoup their investments, and the social business must recover its full costs, or more, even as it concentrates on creating products or services that provide a social good. It does this by charging a fee for its products and services. (One example: a business that manufactures and sells low-priced, nutritious food products to underfed children. Grameen America is also a social business.)

Mr. Yunus freely acknowledges that the free market has done a great deal for the poor. "I didn't say that what is there is wrong. I said the structure was not complete. One piece was missing. We couldn't express within the business world all the things we want to do for others."

He argues that in today's world, people whose main ambition is to help those in need tend to be pushed into philanthropy, which isn't always the most efficient way to bring about change. In philanthropy, he says, the "dollar has only one life, you can use it once . . . social business dollar has endless life, it recycles. And you build institutions." He continues, "when it's an institution you bring creativity into it. You bring innovations into it. You bring continuity into it."

Mr. Yunus argues that it's extremely difficult to bring efficiency to charity. But "the moment you bring in a business model, immediately you become concerned about the cost, about the revenue, the sustainability, the surplus generation, how to bring more efficiency, how to bring new technology, how to redesign, each year you review the whole thing . . . charity doesn't have that package."

There is a time and place for philanthropy, he says. "When Katrina happens, you don't go run a social business right away . . . your immediate response is philanthropy, charity, so that you save people. But after you do the first part of it, the next part becomes more and more interesting and effective when you design it as a business proposition."

Social business will not be everyone's cup of tea. Some will still be drawn to charity, others to profit-driven businesses. Mr. Yunus has no problem with that. He explains: "I'm increasing the options for people."

Increasing options, after all, is what Mr. Yunus is about. He looks at a poor person and sees a potential entrepreneur. By increasing individuals' economic power, he gives them greater freedom to make their own decisions.

Mr. Yunus likes to tell a story of going into a village and meeting one of his borrowers, whose daughter has risen to become a doctor. "You look at the mother, that illiterate woman who borrowed money to raise chickens, to buy a cow to send the daughter to school, and now she's a doctor. And I get the question in my mind: the mother could have been a doctor too," he says.

"The whole thing is about making those opportunities available, so that they can change their lives."

**Ms. Parker is an assistant editorial features editor at The Wall Street Journal.**

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