

Interview with Muhammad Yunus

Bangkok, 18/8/2009

Q: I understand you just came from the Presidential Medal of Freedom ceremonies. Tell us a little bit of the mood... with financial crisis, seems that a lot of people are skeptical about the ability of financial types to do well and do good in the world. Do you feel that this financial crisis is an opportunity for microfinance in general to grab the headlines.

A: The point I always make about the financial crisis is that this is the deepest crisis that we've ever seen. We don't know how long it's going to take, but definitely it shook the whole world. This is one side of the story: the shock of it and the depth of it. That side of the story to me is exciting news because it gives us opportunity – opportunity to redesign things. The point is very simple: when things work, you don't want to change it. Even sometimes you're not happy with it but at least it's working, so, let it go. Good time is when things don't work. Then you start fiddling, pulling out changes you did before. So this is our time, this is the time to change the system as it is, the whole system, not just tinkering with one little piece here, one little piece there. We should not miss this opportunity, because if the system goes back again into its normal state, nobody will let you touch anything, because it's working again, so don't touch it. That means we'll have "missed opportunity." Missed opportunity of not getting back to the old system, old normal system. This is an opportunity to create a new 'normal system' that will not have all these holes and the ditches and the defaults that we have seen along the way. This is one part.

Another part is: It's not a single crisis the way newspapers and media always put up. Since this is the financial crisis, everybody is looking at the unemployment figure, at the stock market going up, going down. They make it a very flat kind of picture. We should not forget that the year 2008 was also the year of food crisis, and that was a big crisis. I don't know what Thailand was doing, probably stop exporting food because you're unsure how much food people would need. Even for importing countries like the Philippines it became a big serious problem. They couldn't find any food; nobody would sell it. Now that problem has not disappeared, it's only called away from the media because the media was busy with something else. That is still on and it's a very serious crisis. 2008 was also the energy crisis, you know the oil crisis went through the ceiling, \$150 or so per barrel. That is still there, the energy crisis is not solved. Simply given the circumstances, it went down, but the moment you give it the opportunity it will go back up. And then the perennial problem of environmental crisis and all the social crisis, about poverty, ill health, diseases. So each one looks like a separate one because we put a separate value to it, but in reality they all come to the same root, which kind of created all the problems. So we have to get to the root, and start redesigning the system in a way that all these problems can be addressed; not in a separate piece, let's go back to the stock market – peaceful, let's get back to the unemployment figure – peaceful. These are not going to be peaceful at all. The environment is not going to be peaceful. The environment is still very serious, in a country like Bangladesh it's in a very serious trouble.

So, coming back to your question, we should be looking at the opportunity side. We should be putting our creative energy in checking into all the creative ideas, incorporate them into the new system. Don't wait for things to go back to the normal situation again.

Q: Do you feel hopeful about that? Do you think the U.S. and Europe have the necessary political will and the willingness to really get to...

A: Not yet. Because they are so busy fixing their own trouble. They're busy with unemployment figures because governments don't like unemployment figures, it keeps on growing. And they don't like stock market going down. So they're trying to fix those things because that's where their attention is glued, because the media is screaming every minute what's happening on these issues. They're not talking about the food crisis or the energy crisis or the environment. Nobody's talking about it, so why should the president be worried about it? President worries about things that immediately hit him. Similarly in Europe, they were busy about these things. So that's why we tried to bring to the consciousness of the G8 when they were meeting in Italy, at least have to concentrate on the changes that we need to incorporate into the system. That's an initiative that no president or prime minister has taken. They worry about how to fix the stock market, pieces of it, not all of it. So still they are looking at the superficial issues rather than the deeper issues. So those are the things we need to draw attention to, because if that opportunity is missed, it will be extremely difficult to raise these issues. Because coming from this difficult time, once they get the economy moving again nobody will want to touch it again. So this is the time.

One example of what we're trying to suggest: the financial system needs to be fixed because it is a very skewed kind of system, concentrated on all the rich people. Financial system is busy with people who already have lots and lots of money. They make lots more money in the financial system by using the financial system. The guy who doesn't have the money: he doesn't get into the picture at all. If you look at the whole world, the majority of the world, two-thirds of the world, they have nothing to do with the banking system. And there are many people in the United States who have nothing to do with the banking system. And you could say that there are many people who can't open the bank account to put their own money in it. It's not allowed, because they are too small for the banks to bother with. So when you work for factory or company and you receive a salary check, you cannot go put the check into the bank account. Because you can't do that, a kind of pseudo-company called check-cashing company grew all over America. So you bring your checks to these companies, they take a little piece out of it, and they make a lot of money. Simply because they can't open a banking account. So that's not a banking system that's working for anybody. Another kind of company call themselves payday loans, all over the U.S. They charge 50% interest, 500% interest, 1,000% interest, 1,500% it goes on everywhere. It's not just in one location, all over the United States you can see that.

This tells you about the sickness of the system. The system cannot adjust these issues. So we have to create an inclusive financial system where everybody has the right to make their way with business system, banking transactions. So this is just one part, the financial side. On the other side, there are many issues which are again skewed in one direction. It's not involved with people. So those are the things that need to be fixed.

Q: Speaking of inclusive financial system, in the past 4-5 years we have seen increasing efforts by mainstream financial institutions to go into what's now being called the microfinance market, including big players like Citibank, Standard Chartered etc. How do you feel about these mainstream institutions who still have to maximize returns for their shareholders?

Yes, big banks came up and promised to get involved in microfinance. But not through their business door. You cannot find a Deutsche Bank doing microfinance. They give money to a microfinance institution: you do it, here's the money. That doesn't mean you are really "in" it. You are simply saying people complain, why aren't you in it, so ok here's the money, now forget about it.

You don't think that's a good sign?

That's not a good sign. The good sign is banking has to change. It's not a charity, it's not something you do as a token. Why should a poor person be denied service from your bank? If you think you can lend money, you can do banking with him. He should be part of your business. You should not be distinguishing him as a separate person. He's just like any other client you serve. If you show say there are a special group people who need special attention, ok, you have a separate branch for poor people, you have separate branch for middle-income, separate branch for corporate clients. No problem if you have those things. But you're not doing it through your business door. You're doing it through your "corporate social responsibility" door, your "foundation" door...

You don't think that they are sincere

Well, once is ok, maybe you're getting used to it. Maybe one day you'll open a front door. But until then, it's still a kind of footnote in your business. Number two: they are giving this money in other countries, poor countries, as a kind of activity to support. And I'm always opposing that money coming in for, say microcredit in Thailand, money coming from New York City. I say Thailand has plenty of money. Money is not the problem. By sending money from New York financial center, you are exposing these poor people to exchange risk, and then you're billing it up as an opportunity to make money: by giving microfinance. So I say this doesn't go well, in a sense, because it gives you the feeling, you are encouraging the rich people to make money out of the poor people: by lending money. I don't think poor people should be advertised as an opportunity to make money for the rich. It should be done in a different spirit: that this is an opportunity to help the poor people get out of poverty. So everything should be done in that spirit rather than, let's go. Because moneylenders have been doing the same thing: they lend money to the poor people. That doesn't make them heroes, because they suck everything out of the poor people. So, making money doesn't make it microfinance. There's a reason why microfinance was born. The reason is to create an environment where people can pull themselves out of poverty. So that spirit has to be brought in, rather than show that oh, we make money out of it. So when they send money from the big financial center, they are saying this is a market they have to cover, here's an opportunity for us to make money. That message is not a welcome message.

Q: So in your view, it has to have a very clear social-purpose-driven entity.

A: Yes, in so many words. Microcredit should be done in the format of a social business, which in my definition is not to make money, no dividends for helping people get out of the situation they're in. So that's the argument. If there are some people who say well, we are in a profit-making business, we have to make some money, I'll say: make sure that the profit is the minimum possible. And I give the definition of "minimum possible" – I say it should not exceed something like cost of funds + 10%. So if you want to make money, then make money, but don't go beyond that. If you go beyond that, you'll deviate from the spirit in which it should be done.

Q: What do you feel about new initiatives like Kiva?

A: It's a good initiative. These young people who are very energized and inspired by Grameen Bank. They were visiting Grameen Bank and they thought they should do something. That's how the whole thing came about, so I'm glad those young people took some action. But now as it's growing big, some people get the impression that the problem is solved. The problem is not solved. Kiva is not the solution to microfinance. Again, because you are giving the impression that because I can give \$100, that would take care of the problem. It gives the opportunity to individuals to lend, but it's not the solution. The solution is at the local level. Because, again, you are sending money. And they are saying you'll get your money back, give the impression that you'll get the money back intact, no interest but you're not losing any money. Who says you're not losing any money. If the exchange rate moves against the local currency, they'll be pushing the borrower to pay all the losses that they made on the currency so that the money can be guaranteed to the lender. So that's not a happy situation for this poor person who got the money, because they were not asking for dollars. All they need is Baht. But you send the dollar and they suffer for it.

So those kinds of things is built into the system, but if it's done at the local level it's ok, it's much better. But it should be done in a more business way. Instead of doing it through Kiva, if a legal home was created, you could put whatever savings account you have wherever in that bank, and you'll earn interest, you'll not missed anything, but you'll prefer this particular bank because that money will go as loan to the poor people. So that way it's a local thing and done in a business way. You've not lost anything, and they didn't have to go to somebody else for the money. It's a deposit lent out to the borrowers. So those are the ultimate solutions. But a legal structure doesn't exist for that, so we have to create the legal structure.

Q: Village saving & lending groups

A: That's the problem. They cannot grow, it doesn't have a legal home, sooner or later they get into trouble. These traditional things, most countries have that, it came from necessity. Women getting together pooling their money, somebody borrowing this month's collection. But it has a very limited purpose. You need to have a financial institution that can go as far as it can go.

Q: But which way the government should go

A: Microcredit and government always becomes a bad chemistry. Because it's very attractive for a politician to use it for political purpose rather than for banking purpose. No matter that in the beginning they always swear by anything, saying no no we won't touch it. But it's so

attractive to be with poor people with money, they cannot avoid the politics of it. So always we need to build a firewall. It should be done in the financial system, creating institutions, having a legal structure and so on. My proposition is to create a separate banking law for microfinance, allowing small initiatives to convert themselves into microcredit banks. Even if it is a small one that lends money to 400-500 people. So it can become a bank with one branch. You have a legal authority. You take deposits, you lend money to those 500 people, and they'll gradually grow with you. You only need to make sure that repayment is high. If you are capable and want to open a second branch, then you go back to the authority and ask for license for the second branch. Then you open a second branch. If you're successful then gradually you'll grow.

Politicians are hesitant to create that law because they think this will create so much political problem for them. Because people run away with deposits. History of every country is filled with incidents where banks took the money and run away. So I say do the experiment at least step by step, so that people cannot have the opportunity to run away. And you don't let them open permission to take all the deposits they want. You tie it up with the amount they lend. So your total deposits should have a ratio with total lending, so you can't make an excuse that you serve 50 poor people and take 1 billion Baht deposit, invest it somewhere, make money and say we're a microcredit bank. So don't get into that kind of situation. Take the people, whatever loan you have given, a certain ratio of that they can get as deposits. They can say to the authority they are looking after public deposits. So this is what should be done even in the experimental phase. You don't have to do it nationwide right away, you can give 1,2,3 bank licenses, with each one having capacity ultimately to have up to 4-5 branches each, it's up to them. And then you can decide whether to let them expand to more branches and so on, or if you'll allow another bank to be established by another group of people.

Q: How important do you think is the ownership of the villagers?

A: The moment villagers become owners, immediately politics gets in again, village politics, who becomes the chairman of this bank. If you let borrowers become owners then that's fine. You have to be careful how borrowers exercise their right of ownership. They are supposed to hold election to select their representative to the board. In the conventional holding, the campaign would begin, big money will come. We do it very quietly. Our rules are made in such a way that nobody will know that we're having an election. And we build it as a system for us, a step-by-step election. In the center we have 50 or 60 women. They have to elect their representative first. There are thousands of these centers. Then we make a rule that we try to come to a consensus: 60 women will get together to decide who should be their representatives, there's usually 10-15 candidates. Their job is to cut the number down from 15 to 5, so gradually they'll debate, until finally they come to one. Until they get there you'll continually have meetings. Nobody will say I'm defeated, I'm out. If it takes the whole week we'll take the whole week. So this is how we do it, by consensus, otherwise you'll divide people up. Because they don't see each other – this is big problem everywhere. Because I want to be the big guy, she wants to be the big guy, so we fight. Even after the election.

Q: On target?

A: We are hoping so because we're saying that by 2015, we will bring the poverty down to half, this is the Millennium Development Goal. So this is kind of on par with that. Out of 175

million that we'll have as borrowers, out of that we should try to have 100 million coming out of poverty. Given that we already have a long history, 33 years, so we should be able to reach 100 million.

Q: AIT Yunus Center

A: I'm very happy that AIT is opening the center called Yunus Center. The reason I'm happy is not because my name is on it but because of what I represent, what the center represents to me: the belief that we can create a world without any poverty at all. That needs to be believed because if we believe it, we'll make it. If we don't believe it, there's no chance we can make it. So by creating that center, we express that yes we believe in such a possibility, and how to organize it to happen. Another thing it represents is how to reach to the poor people, how to help them get out of poverty. Microcredit is one such means. Do it in the business way. So that nobody has to remain poor. And the second generation of poor people will have the same life as anybody else. We missed the first generation because we were not there when they were born. We caught them at the middle age, when they already made up, their life is already done. Second generation is completely different. They can communicate to the rest of the world, they can go to school, they can get to have better health, and so on. Another one is the concept of social business. That business doesn't have to be just for personal benefit; business can be done in a way that others benefit and I don't benefit personally. So that's the idea of social business, how to bring that into the picture so that we can have a two-business world rather than a single-business world. So all these combined is the purpose of this center, to be a forum to bring young people and faculty together to see what can be done.

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