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**Professor Yunus on “social business” and the conquest of  
poverty: a dissenting view**

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# **Professor Yunus on “social business” and the conquest of poverty: a dissenting view**

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Abstract:

In his new book Professor Muhammad Yunus, Grameen Bank founder and Nobel Peace Prize Laureate, proposes a novel strategy for the elimination of poverty worldwide. This strategy relies on the presumed effectiveness of what he calls “social business” in transforming the nature of the capitalist system, which thus (he supposes) will become capable of achieving all desired social improvements. We take the view however that the concept of “social business” is empty and irrelevant, and that Yunus’s thesis in fact implies the untenable proposition that (apparently) all social problems could be resolved by *cost-covering* interventions – thus denying the existence of a significant role for governmental or non- cost-covering charitable actions, which, in reality, are indispensable.

Keywords: social business; not-for-profit sector; Yunus

JEL Classification Codes: D21, D64, G21, I39

## **Introduction**

Muhammad Yunus is renowned for his pioneering practical work for the relief of poverty.<sup>1</sup> The strategy of providing “microcredit”, small loans for income-generating purposes, to poor people without access to normal sources of credit – a strategy first developed in Bangladesh by Professor Yunus and his Grameen Bank - has been adopted and successfully employed world-wide. The Grameen organization has subsequently introduced a wide and innovative range of further interventions for poverty relief and

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<sup>1</sup> While Yunus is widely applauded for his work in alleviating poverty, praise is not entirely universal; see for instance Adams and Raymond (2008) or Tucker (1995). It is not however our purpose in this paper to investigate the effectiveness of existing Yunus/Grameen operations.

social welfare involving areas such as health, agriculture, manufacturing, and communications. The value of these extensive contributions was recognised with the award in 2006 of the Nobel Peace Prize.

In his recent book<sup>2</sup> Professor Yunus, going beyond an account of the operations of the Grameen organisation, but drawing on the Grameen experience, offers his vision of how to mount an effective attack on poverty worldwide. The chosen instrument of this campaign – the active agent – is a type of business organisation which Yunus calls “social business”. A social business is envisaged as an enterprise which, drawing on the initiative and energy of “social entrepreneurs”, is driven not by the search for profit, but by a desire to achieve benefit for the poor and excluded of the world. Professor Yunus anticipates that development of a social business sector will bring about nothing less than an economic and social revolution by transforming the capitalist system into a more effective force for the elimination of poverty. What he regards as the presently incomplete capitalist system, based on the principle of the self-interested pursuit of profit, will be extended and transformed into a fully-formed system characterised by a new sector of (what we might call) “caring capitalism”. Thus, as Professor Yunus puts it:

Capitalism is a half-developed structure. Capitalism takes a narrow view of human nature, assuming that people are one-dimensional beings concerned only with the pursuit of maximum profit. (p.18)

The point is further developed:

To make the structure of capitalism complete, we need to introduce another kind of business – one that recognises the multi-dimensional nature of human beings. If we describe our existing companies as profit-maximizing businesses (PMBs), the new kind of business might be called social

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<sup>2</sup> Muhammad Yunus, with Karl Weber, *Creating a World Without Poverty: Social Business and the Future of Capitalism*. New York: Public Affairs, 2007.

business. Entrepreneurs will set up social businesses not to achieve limited personal gain, but to pursue specific social goals. (p.21)

This is heady stuff. But does it make sense? The purpose of this note is twofold: (1), to consider the potential of “social business” which plays such a key role in Professor Yunus’s strategy; and (2), to suggest an alternative, rather simpler scenario which emphasises the contribution to be made by “social entrepreneurship” rather than “social business”.

### **“Social business” and its role in fighting poverty**

Let us take the Yunus thesis from the top, beginning with the introductory chapters in which he discusses the strengths and weaknesses of capitalism as he sees them. Yunus opens the discussion by making the point that, while free markets and capitalist institutions have brought enormous economic progress and great wealth to much of the world, these benefits have not been evenly distributed and that, particularly in Sub-Saharan Africa, South Asia and parts of Latin America “hundreds of millions of poor people struggle for survival”. As well as that, the persistence of inequalities in wealthy countries and increasing environmental degradation in consequence of economic growth indicate further failures of the capitalist system. Thus capitalism as it is, is a long way from having achieved perfect results. All that Yunus admits: but, he asks, what are the alternatives? For instance - is government action the answer? No, he concludes: while governments can and do much to address social problems, they cannot, being prone to bureaucracy, slowness, inefficiency and corruption, be relied upon to supply the complete solution. Nor does he believe non-profit organisations to be up to the task – for the reasons that so much time and energy has to be devoted to fund-raising and that their resources are inevitably limited. Neither does Yunus have faith in the currently fashionable notion of “corporate social responsibility” (CSR), the idea of profit-orientated businesses taking it upon themselves to treat their customers, employees and the environment in a better manner than they might have been adopted in the past. Recognising the inescapable responsibility of company executives to pay attention to the

bottom line, he doubts that CSR can have more than a marginal effect. Given that he regards none of these mooted solutions – government, not-for-profit activities, or CSR – as capable of making up for the deficiencies of our present form of capitalism, Yunus’s solution is apparently to seek radical change in the very nature of the capitalist system: to this end the concept of the “social business” is introduced.

So, what exactly does Yunus see as the trouble with capitalism as it presently exists and what exactly are the characteristics of a social business – the business model which he believes, if introduced, will provide the remedy?

Professor Yunus recognises the power and success of the capitalist system, but deplors the fact that it is driven (he believes) by nothing other than a purely selfish desire for personal gain.<sup>3</sup> As the passages quoted above indicate, he regards the system as being at present “half-developed” – meaning that it is based on an unrealistically narrow, one-dimensional view of human nature. He notes that in reality people are often moved by disinterested motives, and that a great deal of “social entrepreneurship” exists in society, driving all sorts of socially worthwhile activities. Is it not possible, he asks, to develop a kind of social capitalism which harnesses these disinterested motives to the achievement of desirable social objectives? That is what he is arguing for – the creation of what he would regard as a “fully-developed” capitalist system, one in which all sorts of other human motives, beyond mere self-interest, would come into play, ensuring that business activities - or at least some of them - were directly focused on the promotion of social welfare. This is where Yunus’s concept of a social business fits in. In his new world “social businesses will take their place along with profit-maximizing businesses as basic

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<sup>3</sup> Legitimate concern with earning an income or running a viable business should not be equated with selfish, single-minded pursuit of profit. Yunus seems unable to take on board the idea that the individual businessman or company executive may have a sincere desire to do the right thing by his customers in providing good quality products and good service, which he does for his own self-respect and satisfaction, and not merely because shoddy products and poor service are bad for business. He may also take satisfaction working in or investing in an industry (say for instance, pharmaceuticals) whose operations are contributing to improved social welfare; in other words, moral considerations can influence him to choose or reject particular courses of action. Although commercial viability is a necessary condition of business survival, it does not follow that the man of business, the entrepreneur, is motivated by nothing other than desire for profit.

features in the world of business” (p.174), meeting needs which in current circumstances remain neglected.<sup>4</sup>

As Yunus envisages it, a “social business” is distinguished from a conventional profit-maximizing business (PMB) as a new kind of operation, “one that recognises the multi-dimensional nature of human beings. . . . Entrepreneurs will set up social businesses not to achieve limited personal gain but to pursue specific social goals”. (pp.21-22) He elaborates:

In its organizational structure, this new business is basically the same as the existing PMB. But it differs in its objectives. Like other businesses, it employs workers, creates goods or services, and provides these to customers for a price consistent with its objective. But its underlying objective – and the criterion by which it should be evaluated – is to create social benefits for those whose lives it touches. The company may itself earn a profit, but the investors who support it do not take any profits out of the company except recouping an amount equal to their original investment over a period of time. A social business is a company that is cause-driven rather than profit-driven, with the potential to act as a change agent for the world.

Yunus predicts that widespread development of such welfare-orientated social businesses will rapidly revolutionise social and economic conditions, eliminating all the problems of poverty which markets, governments and charities have so far failed to resolve.

A question which immediately arises in the mind of the reader relates to the nature or status of a social business thus envisaged. Given that Yunus describes the new social business model as being “basically the same as the existing PMB”, refers in the title of his book to “the future of capitalism” and talks about completing the capitalist system through the development of a social business sector, we take it that he regards social

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<sup>4</sup> “Social business is the missing piece of the capitalist system. Introduction of it into the system may save the system by empowering it to address the overwhelming global concerns that now remain outside of mainstream business thinking.” (p.101)

business as a form of capitalist enterprise. Indeed, if the accession of social businesses to world markets is to fill a gap perceived currently to exist in the capitalist system, a social business can, from the Yunus perspective, hardly be other than an instance (albeit a relatively benevolent one) of capitalist organisation.

We suspect, however, if that is in fact how Yunus sees the situation, that categorisation of what he calls “social business” is inappropriate - a mis-classification - for the reason that the primary objective of a social business is explicitly *not* that of making profit (which is after all the very essence of capitalism); it is, by contrast, that of achieving a particular social goal. If the latter is its objective, such an operation surely falls more naturally into the category of a *charity*? Nor is it characteristic of capitalist business for the owners to abstain from any direct personal enjoyment of profits generated and apply all surplus value over costs to furtherance of social welfare. Even if the operation in question is run (as indeed it ought to be) on business lines, with careful attention to efficiency and cost control, that does not make it a “business” - an activity of which the principal objective is that of making money. We therefore take the view that what Yunus describes as a “social business” is more appropriately identified as species of not-for-profit or charity operation. While it is hardly typical of a charity to be in the enviable situation that the activities in which it engages actually pay for themselves, or even yield a net surplus<sup>5</sup>, the purpose and *modus operandi* of Yunus’s social business *are* nevertheless those of a charity, which in this case happens to be a “cost-covering charity”, not those of a “business”.

In fact Yunus himself gives the game away with the following – remarkable - assertion (p.178):

A PMB that is willing to follow the criteria for a social business – in particular, by foregoing the payment of dividends to shareholders and by dedicating itself to achieving a social benefit – should be able to easily convert itself into a social business.

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<sup>5</sup> The convention is to describe any such excess of revenues over costs achieved by a not-for-profit operation as a “surplus” rather than as “profit”.

Or, in other words, as we would prefer to put it: a PMB can readily (*pace* the shareholders) turn itself into a *charity* by ceasing to pay a return to its owners and applying its revenues to “good causes”!

Lest confusion arise from this terminological tangle, it may at this point help to say: (1), Yunus sees his notional social business as neither “fish nor fowl” – as being neither a normal profit-seeking business, nor a charity - rather as a novel form of not-for-profit capitalism; (2), *we* consider Yunus’s social business to be, in essence, a charity; and (3), it is not unknown to find the term “social business” (contemporary “buzz-word”?) loosely applied to operations, which are in fact charities or normal businesses, perhaps, in the case of the latter, creating a feel-good glow of social benevolence.

Having mentioned our doubt about the supposed nature of a “social business” *a la* Professor Yunus, we put aside the question of classification and terminology, and concentrate on the issue of whether or not a so-called social business (whatever its true status) can be expected to fulfil the key role which Professor Yunus foresees it playing.

How, with respect to the promotion of social welfare do the operations of a social business compare with those of a conventional profit-maximising capitalist enterprise? A disquieting feature of the Yunus thesis that strikes the critical reader is the apparent underlying presumption that only so-called “social businesses” can contribute to the attainment of social objectives – in other words it is supposed that there are two distinct classes of business, the traditional PMB which selfishly seeks only its own profit, and the “social business” which, by definition, has worthier objectives and achieves a more valuable outcome. However surprising it may seem, it looks as if Professor Yunus – or perhaps his fellow author – has not grasped the essential Smithian message that conventional commercial activities, involving the prudent pursuit of self-interest under



competitive market conditions, can in fact be effective in promoting the welfare of society.<sup>6</sup> As Adam Smith himself put it:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. (Smith, 1776 [1975], Book I, Chapter II)

From Smith's perspective, the pursuit of self interest in commercial affairs is not be regarded as necessarily greedy or immoral – he considered it perfectly natural and acceptable for the individual member of society to seek thereby to make a living for himself. Given the very important proviso that the individual agent is operating under competitive conditions such that his market power is limited, the beauty of a competitive and well-ordered market system is, as Smith understood it, that the individual pursuit of private interest actually promotes at the same time the general interest of society. While capitalism is essentially a system for making money – in Marx's language, for the creation and capture of surplus value – and not one developed for the advancement of social welfare, it can, under the appropriate conditions, be remarkably effective in meeting the needs of the community.

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage, naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society. (Smith, 1776 [1975], Book IV, Chapter II)

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<sup>6</sup> Elsewhere Yunus, referring to the consequences of the collapse of the Soviet empire, rather oddly remarks: “With command economies gone we are back to the artificial division of work between the market and the State. In this arrangement the market is turned into an exclusive playground of the personal gain seekers, *overwhelmingly ignoring the common interest of communities and the world as a whole.*” (Emphasis added.) (Yunus, 2005, p.5) Again, we sense the curious undertone to the whole discussion - the implication that ordinary “selfish”, profit-seeking enterprise cannot do socially beneficial “good things”.

As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. (Smith, 1776 [1975], Book IV, Chapter II)

Of course, without the restraining pressures of competition, this happy coincidence of interests could not, as Smith emphasised, be expected to obtain.

People of the same trade seldom meet together even for merriment or diversion, but the conversation ends in a conspiracy against the public, or on some contrivance to raise prices. (Smith 1776 [1975], Book I, Chapter X, Part II]

And, further, with respect to the notion of “caring capitalism”, we may note Smith’s sceptical view of businessmen who professed motives of selfless benevolence:

I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it. (Smith, 1776 [1975], Book IV, Chapter II)

In short, it would, rather surprisingly, appear that, in arguing for the creation of some new sort of benevolent capitalism, Professor Yunus may be betraying a lack of understanding of how a capitalist market economy actually functions and how, in that context, self

interest and social welfare may be complementary rather than incompatible. As regards the welfare of society, Adam Smith's message is that we should not imagine that it is only through selfless concern for others that social needs can be met: according to Smith what is required is *efficient* capitalism, rather than some notional sort of caring capitalism.

It is not altogether clear either how Yunus expects his envisaged new world of social business to come into being. He seems almost to be saying that the profit-maximising firm is presently dominant for the reason that, since conventional economic theory has focused on the objective of profit maximisation, we in practice “enthusiastically imitate the theory, striving to transform ourselves into one-dimensional [i.e. profit-maximising] human beings” (p.18) <sup>7</sup>, so that correspondingly, if and when we free ourselves from the misleading simplifications of economic theory and “recognise the real human being in his or her multi-faceted desires”, this new form of business organisation – “social business” – will spontaneously emerge. Apparently the real world – the capitalist system as it actually functions - is believed to be modelled on the prevailing economic theory, *and all we have to do to change the world is change the theory.*<sup>8</sup> But, to think thus would, of course, imply a fundamental misunderstanding – fatal to the possibility of devising a realistic strategy for enhancing the system's ability to advance social welfare. It is the theory that is modelled on reality, not *vice versa*: economic theory focuses on the pursuit of profit as the motivating force of capitalism because that is, in fact, the nature of the beast.

The question must now be asked – how exactly (is it supposed) would the emergence of the notional social business as a new form of capitalist organisation contribute to social progress and the elimination of poverty? What, uniquely, could it offer?

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<sup>7</sup> And similarly, (Yunus, 2005, p.3): “We worked extra hard to transform ourselves, as closely as possible, into the one-dimensional human beings conceptualized in theory to allow free functioning of the free market mechanism.”

<sup>8</sup> Yunus reiterates the point that it is wrong theory that is responsible for wrong action, arguing that the deficiencies of the present market system which concern him are the result not of “market failure”: he diagnoses a “much deeper” problem “of ‘conceptualization failure’” – in other words a deficiency of *theory*. Yunus explains “More specifically, it is the failure to capture the essence of a human being in our theory.” (Yunus, 2005, p.3) Here again, he is putting the cart before the horse.

As mentioned above, a social business is said to be “cause-driven” rather than profit driven. But at the same time Yunus is definite that a social business is not a charity, dependent on the benevolence of donors: it is represented as a fully-independent cost-covering operation; it may not be profit-maximising, but it certainly must – if it is to function, and grow, in dynamic, competitive conditions - make a net profit. (The profit though is to be ploughed back into the operation, rather than distributed to shareholders.) Yunus explains the situation thus:

Profitability is important to a social business. Whenever possible, without compromising the social objective, a social business should make a profit for two reasons: first, to pay back its investors, and second to support the pursuit of long-term social goals. Like a traditional PMB, a social business needs to have a long-term road map. Generating a surplus enables the social business to expand its horizons in many ways . . . (p.24)

As regards profits, it would therefore seem that while a social business is supposed to be less concerned than a PMB to squeeze the last drop of profit out of a situation, Yunus is nevertheless implying that a social business is no more likely than is a conventional business to keep going if no surplus over operating costs is being made. That being so, we are tempted to ask whether – as regards their potential for “doing good” - any fundamental difference actually exists between a social business and a conventional PMB? If social businesses are to remain viable (which, as businesses they must aim to do), are not *their* operations, as are those of conventional PMBs, ultimately constrained by financial realities? Even in the case of a social business not committed to profit maximisation, there is no way in which a social objective can take priority over cost recovery. Yunus himself highlights the possibility of conflict between social and financial objectives; although he refers specifically to PMBs, the point he makes would apply also in the case of social businesses, concerned with maintaining their viability. Thus: “. . . any social goals . . . managers may want to pursue will be set aside whenever they conflict with the maximization of profit [or, we might add, with the avoidance of financial loss]”. (p.37)

With respect to the relative effectiveness of a social business as compared with a PMB as an instrument for providing goods and services needed by the community, there doesn't in practice appear to be all that much difference between the two types of business as distinguished by Yunus: each is constrained in what contribution it can make to social wellbeing by necessary consideration for the revenues it can earn from the activities it undertakes. Could therefore social businesses, for all their benevolence and goodwill, really do much more for social welfare than conventional profit-maximisers?

To put the point another way: if an activity can be carried out *at a profit* by a social business, why in that field should any need for such a business be thought to exist? Normal commercial activities should be capable of doing what is required. Yunus lists (pp.22-23) a number of products or services as suggested examples of what could be sold by social business to provide social benefit. Thus:

A social business that manufactures and sells high-quality nutritious food products at very low prices to a targeted market of poor and underfed children. These products can be cheaper because they do not compete in the luxury market and therefore don't require costly packaging or advertising, and because the company that sells them is not compelled to maximise its profit.

A social business that designs and markets health insurance policies that provide affordable medical care to the poor.

A social business that develops renewable energy systems and sells them at reasonable prices to rural communities that otherwise can't afford access to energy.

A social business that recycles garbage, sewage and other waste products that would otherwise generate pollution in poor or politically powerless neighborhoods.

It is however difficult to see how any of the situations envisaged in the above examples necessarily require, for the attainment of a socially satisfactory outcome, the introduction of the new concept of a social business. The fact that the activities cited all relate directly to social welfare or poverty alleviation is beside the point. *If the operations concerned are potentially profitable to a social business, there is no reason why they should not be rewarding to a profit-orientated one of the conventional sort.* If a social business can profitably target and cater for a particular market, so likewise can a normal business. Correspondingly, other side of the coin is that what cannot be done by an ordinary commercial operator cannot be done either by a social business – if no return over costs is on offer. Even if a social business is not a profit-maximiser, it must, to ensure viability, at least cover its outlays (including some allowance for risk). Goodwill is not enough to pay the bills. If we have a situation, a social need, with which neither a PMB nor a social business can cope financially, there is then no alternative but to turn to government or to a charitable agent to do what is necessary.

A final question regarding the concept of social business: we ask – what examples of operations fitting Professor Yunus’s specification of a social business can we find, out there in the real world? We are looking for any private sector activity which quite definitely does not fall into the standard categories of either “normal commercial business” or “charity”. Let us explore: on checking via Google a Wikipedia entry appears<sup>9</sup>, which reads:

*A social business* is one which aims to be financially self-sufficient, if not profitable, in its pursuit of a social, ethical or environmental goal. Examples of social businesses in the United Kingdom include The Ethical Property Company, Divine Chocolate and Fair Finance. A more famous example is the Bangladeshi Grameen Bank, set up by Professor Dr. Muhammad Yunus in 1976. Dr. Yunus is a key proponent of the social business model, seeing it as a means to eradicate poverty and influence the future of capitalism. However,

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<sup>9</sup> [http://en.wikipedia.org/wiki/Social\\_business](http://en.wikipedia.org/wiki/Social_business)

his definition specifies that profits cannot be distributed to investors and must instead be ploughed back into the business or community it serves.

That specification of the nature of a social business certainly accords with Professor Yunus's definition. But do all the four organisations cited – indeed, do *any* of them – actually correspond to that specification?

Let us make a quick check. The Ethical Property Company, which is run with careful consideration of its social and environmental impact, purchases properties, refurbishes them and lets out space to tenants who, typically, are themselves socially concerned charities and voluntary organisations. All very admirable. The EPC's annual report<sup>10</sup> doesn't actually explain how the rents charged compare with going market rates (the company itself doesn't seem to be sure), but a good return on EPC's outlays is recorded and profit is distributed to shareholders as dividends. (In 2007 profit after tax on turnover of £1.9 million was £352 thousand and £135 thousand was distributed over 9 million shares.) It appears therefore that the Ethical Property Company, while operating to high ethical standards in supplying valuable services to the community, is nevertheless at the same time a successful commercial company which generates returns to its owners – consequently not exactly a “social business” as per Yunus's criteria.

What about Divine Chocolate?<sup>11</sup> This is essentially a charity-backed operation in support of a Ghanaian cocoa producers' cooperative, the objective being not to create benefits for third parties, but to strengthen the farmers' market position and thereby stabilise and raise their own incomes. Again, although the operation is socially beneficial, it is not what Yunus has in mind in referring to a social business.

Third case up – Fair Finance.<sup>12</sup> This is a rather Grameen-type operation, providing credit to small businesses and other borrowers experiencing difficulty in accessing conventional sources of finance – operating not in rural Bangladesh but in the urban context of East

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<sup>10</sup> [www.ethicalproperty.co.uk](http://www.ethicalproperty.co.uk)

<sup>11</sup> [www.divinechocolate.com](http://www.divinechocolate.com)

<sup>12</sup> [www.fairfinance.org.uk](http://www.fairfinance.org.uk)

London. It is explicitly a charity organisation in that funds are obtained on subsidised terms and full commercial costs are not covered.

Finally, what about the Grameen Bank itself? Does it qualify as a social business? It is a bit difficult to tell, because Grameen's accounting conventions are rather unorthodox. While the Bank does consistently report a profit, commentators have questioned that interpretation of the figures. One careful study - though perhaps now a little out of date - (Morduch, 1999) notes that a substantial proportion of the Bank's funds have come from soft loans or the issue of bonds at less than market rates. He (Morduch, 1999, p.240) explains: "In recent years Grameen has made a major shift to financing via bonds, and these too are subsidized . . . the bonds carry an implicit subsidy in being guaranteed by the Bangladesh government. . . . Assuming an average cost of 5% on bonds and rate of 9% on alternative safe investments, Bangladeshi nationalized banks (or the government through its guarantee) implicitly subsidized Grameen in the amount of 258 million Taka (US\$6.4 million) in 1994-95 – about US\$3.10 for each of Grameen's two million members." Taking an overall view of the implications of Grameen's dependence on soft funding, Morduch (1999, p.242) reckons that, by borrowing at an estimated average interest rate of 3.8% per year instead of 11.3%, the implicit subsidy to the bank amounted to US\$80.5 million between 1985 and 1996. Grameen's financial situation was then very evidently not that of a cost-covering social business; Grameen would appear rather to have been operating as a charity, the losses on whose activities were covered by funding supplied on concessional terms.

We need at this point to take stock of our position. We appear, in following the path laid out by Professor Yunus, to have reached an impasse. We were invited to envisage the introduction to the market of social businesses as a means of "completing" the hitherto imperfect structure of capitalism. Social business operations are said, with respect to the direction of economic activities, to offer scope for more generous motives than does the mere self-interested pursuit of profit – they are supposed to constitute a new instrument by which social entrepreneurs of goodwill can act to meet hitherto unfulfilled needs of the community. We have however arrived at the understanding that if profit can be made



by meeting social needs, then, without any requirement for society to have resort to a contribution by so-called “social business”, ordinary profit maximising businesses can generally be expected to fulfil that need; correspondingly, if such needs cannot be satisfied with profit to the supplier, *neither* form of business – social or profit-maximising - will be able to contribute. In these circumstances only government or charities will be able to act. To put it bluntly, all the huffing and puffing about social businesses being inspired by different motives from conventional PMBs doesn’t seem particularly relevant to the practical issue of how to get “good things” done: given the nature of a social business as defined by Professor Yunus, consideration of the bottom line must still rule the roost and potentially constrain benevolent intervention: that being so, it is not evident that “social business” is capable of making a special and major contribution to the conquest of poverty. Into the bargain, we have found social business to be an elusive creature to spot on the ground: in fact, we doubt if any “social businesses” of the sort pictured by Professor Yunus – which do not in reality fall into one or other of the categories of “normal commercial business” or “charity” - actually exist to be found.

### **An alternative scenario: charity and social entrepreneurship**

Where to from here? Let us go right back to the starting point of this discussion and remind ourselves of the issues.

As we are aware, Professor Yunus’s basic concern is that despite the undeniable achievements of the capitalist system, much social need and deprivation continue to exist. We have just considered his proposed strategy for bringing into play the goodwill, energy and initiative which he (we think correctly) believes to exist within society - a strategy that hinges on the development of a sector of so-called social businesses – capitalist business operations focused not on profit maximisation, but on promoting social improvements; although not profit-maximisers, these benevolent social businesses would aim to cover costs and operate as viable, self-sustaining units. Professor Yunus holds that the establishment of this sector of social business has the practical potential to “make poverty history”.

We are however not persuaded that the concept of social business is capable of carrying the burden of responsibility for social progress that Professor Yunus places upon it. Professor Yunus wants “good things” to be done – but we do not believe that social business is the instrument by which they can be done. We suggest that, putting aside the suspect notion of social business, we think in terms of a simpler scenario than that of Professor Yunus – specifically, one in which the agents of economic change and social progress fall unambiguously into one of only three clear-cut categories – commercial business, government and nonprofit or charitable activities. These categories are comprehensive: there are no other actors on the scene.

Bill Gates, the multi-millionaire philanthropist, describes very nicely (Gates, 2008) what he understands to be the complementary roles of these three agencies, each with its own characteristics and capabilities:

Capitalism harnesses self-interest in a helpful and sustainable way but only on behalf of those who can pay. Government aid and philanthropy channel our caring for those who can't pay. And the world will make lasting progress on the big inequities that remain – problems like AIDS, poverty and education - only if governments and nonprofits do play their part by giving more aid and more effective aid. But the improvements will happen faster and last longer if we can channel market forces, including innovation that's tailored to the needs of the poorest, to complement what governments and nonprofits do.

A word about each of these agencies.

(a) That *profit-seeking capitalist enterprise* has great achievements to its credit is not at issue. The question rather that concerns us here is whether the system can be amended or changed in its operation to deal more effectively with the problems of the poor and excluded.

We have already mentioned the currently fashionable notion of developing a more socially responsible form of capitalism through fostering “corporate social responsibility”. It is of course all to the good if companies can be encouraged to treat customers and employees more fairly and to have greater regard to the environmental consequences of their operations. While any such signs of more ethical behaviour may indicate that commercial organisations are becoming better citizens, they certainly do not mean that they are turning into charities. We agree with Professor Yunus that concern with the bottom line of profit will constrain companies’ willingness to accept extra costs associated with more benevolent policies, and we would emphasise that in any case any such improvements in behaviour cannot of course make companies capable of meeting needs where no prospect of profit exists.

As discussed, Professor Yunus’s hope is to see the potential of the capitalist system enhanced by co-opting the services of “social entrepreneurs” whose inspiration to undertake socially beneficial activities, is not simply that of making money. For the reasons just explained, we very much doubt that the Yunus strategy of encouraging the development of a new sector of “social business” can effectively extend the social reach of the capitalist system. As an alternative means of doing just that, we rate much more highly the potential of Bill Gates’s vision of “creative capitalism”. Gates takes a far more positive view than Yunus appears to do of the possible benefits that conventional, profit-seeking capitalism can bring to society. Gates’s views fall squarely within the Smithian tradition. *Gates doesn’t call on any sort of specially benevolent type of capitalism – such as “social business” – to deliver the goods:* quite explicitly, his strategy for getting industrial corporations to make a more effective contribution to the alleviation of poverty is that *new profit opportunities* must be found by them, or for them, opportunities such as can be exploited by doing things which directly create better social conditions. Again, in his own words:

Naturally, if companies are going to get more involved, they need to earn some kind of return. This is the heart of creative capitalism. It’s not just about

doing more corporate philanthropy, or asking companies to be more virtuous. It's about giving them a real incentive to apply their expertise in new ways, making it possible to earn a return while serving the people who have been left out. This can happen in two ways: companies can find these opportunities on their own, or governments and nonprofits can help create such opportunities where they presently don't exist.

Gates urges companies to put more effort into seeking out opportunities in neglected markets; at the same time he encourages nonprofits to get together with industrial companies to explain to them the nature of outstanding needs with which they are familiar, and to explore the possibilities of applying the companies' technological know-how to finding solutions. From his own experience Gates cites innovatory applications of company technological expertise to meeting the needs of the poor: Microsoft is developing "a visual interface that will enable illiterate or semiliterate people to use a PC instantly, with minimal training", and Vodafone has found "creative ways to serve low-income Kenyans" which have made it possible for a profitable cell-phone service to be provided.

Yunus would replace conventional incentives to firms - at least for social businesses - simply with the satisfaction of doing good; Bill Gates on the other hand doubts that companies can be expected to "do good" simply for the sake of doing so; he sees a need for tangible, and possibly public, rewards - in the form of profits arising directly from market opportunities, or in the shape of other financial incentives, in order to induce desired action by companies; he suggests that, failing the practicability of these, even simple public acknowledgement which gives companies credit for social contributions can be effective.

Finally, as regards the contribution which profit-seeking private industry can make to poverty alleviation and social welfare, Professor Yunus puts considerable emphasis on the potential of nonprofit charitable organisations forming partnerships with profit-making businesses. We believe this is a promising strategy (even if we do not accept

Yunus's contention that it works via the instrument of social business). We shall discuss this possibility in more detail below when we consider Yunus's observations on the financing of charitable operations.

(b) *Government*: we don't want here to go deeply into the question of the role of the government in a market economy; we merely note one or two things that may be worth mentioning. We recall that Adam Smith saw the role of the state (government) as going beyond responsibility for the essentials of external defence and internal law and order. He held it was the duty of government also to make up for "market failure" – to deal with circumstances under which market incentives failed to ensure the correspondence of private and public interest. He instanced important public works (infrastructure projects as we would now call them) as deserving of government support when the expected return offered insufficient inducement to a private investor, despite a project being of great value to society. Smith believed also that government was obliged to give attention to the quality of life of ordinary people when, for example, harsh industrial conditions threatened to bring about what Marx would later describe as "social alienation". In modern times advanced societies have come to rely to a great extent on government provision to ensure access to education, health care and other social services – access which is available for all, without dependence on the individual's ability to pay. It is also through the agency of government that policies to reduce inequalities of income and wealth must be implemented. It must not be forgotten too that Western (and some other) governments are heavily involved in providing international aid, often working with NGOs in project implementation.

We simply make the point here that Professor Yunus, as we read him, seems to be unduly pessimistic about the contribution of government to poverty elimination and social welfare. Of course it is true that governments can be bureaucratic and slow, and that the attainment of desirable outcomes may be frustrated by inefficiency and corruption – but it should be recognised that some governments are much more competent and honest than others. We don't dispute Yunus's verdict that in Bangladesh, despite, as he says, the government spending generously on health, "the quality of services the poor receive is

appalling”, but he gets it wrong when he asserts (Yunus, 1999, p.244) that under the “nationalized” health systems of “England, France or Germany, the poor are not protected”. We cannot agree with his contention that, in the advanced countries, “the reality of free government health care means that, if you want proper treatment, you have to turn to the expensive clinics. For the rich or even middle class that is perhaps possible. If you are destitute you are caught in a trap.”

Professor Yunus, although admitting that “[g]overnment must do its part to alleviate our worst problems”, does seem to stress the negative that “government alone cannot solve them”. That is of course true, but we prefer to emphasise the idea of a *partnership* of the private sector, the nonprofit sector and government, each with a valuable contribution to make; in other words we take the view that Yunus seriously underrates the potential of the public sector, especially as regards equity of distribution, for achieving desirable social improvements.

(c) *Charity sector*. We come now to what is referred to variously as the nonprofit, not-for-profit, voluntary or charity sector. For convenience let us describe it as the “charity sector”. The sector is described<sup>13</sup> as being -

made up of a mix of organisations ranging from small local community groups to large, national [and international] multi-branch organisations, some of which are direct service providers and some fundraisers and grant givers. However, they . . . all have certain features in common. They will be (a), value led, i.e. they will have been established with the objective of addressing a social need, rather than simply to provide a service or generate revenue; (b), non-profit making, or will reinvest revenue for the purpose of

    serving their client group or achieving their objective; (c), generally use volunteer staff (often relying heavily upon them); and (d), not under direct political control.

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<sup>13</sup> Source: [www.charitypeople.co.uk](http://www.charitypeople.co.uk)

We believe this sector offers great scope for what Professor Yunus calls “social entrepreneurship” – opportunities to apply the initiative and energy of private individuals and groups to all sorts of outstanding social problems, problems to which neither the commercial sector nor the government have been able to provide a solution. (A point to note here: Professor Yunus focused particularly on the role of social entrepreneurship in setting up social businesses – i.e. from his perspective activities *outwith* the charity sector. If however, we classify a Yunus-type social business as a charitable operation – on the ground that its primary objective is social rather than financial – then, as we see it, any social entrepreneurship therewith involved constitutes action *within* the charity sector.) We must not forget, however, that while it is the *raison d’etre* of the charity sector to tackle unresolved social problems through beneficial intervention, that sector does not, of course, possess a monopoly either of goodwill and benevolence or of the power to achieve socially desirable outcomes: both the government sector and the private business sector have their contributions to make.

We are wholly in agreement with Professor Yunus in what he says (p.32) about the potential of “social entrepreneurship”:

The concept of social entrepreneurship is very important. It brings out the power of yearning in people to do something about problems that are not being currently addressed with the efficiency and urgency they deserve.

People care about their world, and they care about one another. Humans have an instinctive, natural desire to make life better for their fellow humans if they can; given the chance, people would prefer to live in a world without poverty, disease, ignorance, and needless suffering. These are the causes that lead people to donate billions of dollars to charity, to create foundations, to launch NGOs and nonprofit organizations, to volunteer countless hours to community service, and (in some cases) to devote their careers to relatively low-paid work in the social sector.

As generally defined, any innovative initiative to help people may be described as social entrepreneurship. The initiative may be economic or non-economic, for profit or not-for-profit. Distributing free medicine to the sick can be an example of social entrepreneurship. So can setting up a for-profit health care centre where no health facility exists.

If the charitable sector has a role to play in alleviating poverty and attaining other desirable social objectives, it is social entrepreneurship that must drive these efforts forward. But does the charity sector have a real contribution to make? While *we* believe that the charity sector does have an enormous part to play – and is capable of doing so, Professor Yunus shows rather limited enthusiasm for the sector's potential. Thus (p.22):

There are many organizations in the world today that concentrate on creating social benefit. Most do not recover their total costs. Nonprofit organizations and nongovernmental organizations rely on charitable donations, foundation grants or government support to implement their programmes. Most of their leaders are dedicated people doing commendable work. But since they do not recover their costs from their operations, they are forced to devote part of their time and energy, sometimes a significant part, to raising money.

Nonprofits alone have proven to be an inadequate response to social problems. The persistence and even worsening of global poverty, endemic disease, homelessness, famine and pollution are sufficient evidence that charity by itself cannot do the job. Charity too has a significant built-in weakness: it relies on a steady stream of donations by generous individuals, organizations or government agencies. . . . [As that stream is unreliable and limited] there is a built-in ceiling to the reach and effectiveness of nonprofit organizations. The need to constantly raise funds from donors uses up the



time and energy of nonprofit leaders, when they should be planning the growth and expansion of their programs. No wonder they don't make much progress in their battles against social problems.

We find that last comment breathtakingly arrogant: Yunus is far too ready to dismiss – for no good reason – the efforts of organisations which happen to function in a different way from that of his own Grameen Group or the hypothetical social business.

Comparing a charity operation with a social business, he makes much of the fact that a charity, rather than being self-financing as a social business is supposed to be, “relies on subsidies or donations to cover its losses” and therefore, he believes, lacks the growth potential of a social business. As regards the latter, Yunus enthuses: “Once a social-objective-driven project overcomes the gravitational force of financial dependence, it is ready for space flight. Such a project is self-sustaining and enjoys the potential for almost unlimited growth and expansion. And as the social business grows, so do the benefits it provides to society.” (p.23) (The reader will of course appreciate that even if a social firm is able to sell on the market, there is no certainty that it will achieve “unlimited growth and expansion”.)

That comparison is terribly unfair to the whole class of charity organizations which are in no position to cover their costs by selling their services. In disparaging such organisations Yunus is not comparing like with like. It is certainly not the case that every charity is in the fortunate position supposed to be enjoyed by a social business – that costs can be met out of revenue from the sale of goods or services to the market. While Grameen sells (lends) funds, for far from negligible fees, to its clients, most charities have no prospect whatsoever of funding their activities by such commercial means. Coincidentally (?) all the other illustrative instances of social business offered by Yunus (p.22) involve production of marketable goods or services. This false comparison reveals another fundamental flaw in Yunus's scheme of poverty alleviation: not only is it difficult to identify a possible contribution which could be made by cost-covering social businesses but not by conventional business, it is impossible to believe that cost-covering social

businesses could ever (even though it seems that that is what Yunus would like to see<sup>14</sup>) take over from the non-cost-covering charity organisations presently operating.

It is instructive to note just how far some well-known charities are from the situation of cost-covering self-sufficiency which would be required for social businesses to replace these charities. The data (from a pretty random selection of charity accounts) which appears in TABLE 1 below should give some impression of the situation.

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TABLE 1:  
SOURCES OF CHARITY FUNDING - SOME EXAMPLES

Selected items from charities' accounts; figures in £ millions.

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The British Heart Foundation:

total net income, 2007-08, 87.6  
    legacy fundraising, 47.3  
    general fundraising, 35.2 (partnerships with companies generated over £4mn)  
    public funding, 5.7 (including £4.8mn from the Big Lottery Fund and  
        £0.7mn from Sport England)  
    retail profit, 12.5  
(Source: [www.bhf.org.uk](http://www.bhf.org.uk))

CAFOD

total income, 2008, 47.9  
    voluntary income (general donations, legacies, etc), 37.8  
    DfID partnership programme agreement, 3.7  
    trading and other income, 0.114  
(Source: [www.cafod.org.uk](http://www.cafod.org.uk))

OXFAM

total net income, 2007-08, 206.7  
    fundraising net income (including both income from supporters  
        and public and institutional donor income), 170.7  
    DfID partnership, 8.9  
    trading profit, 15.8  
(Source: [www.oxfam.org.uk](http://www.oxfam.org.uk))

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<sup>14</sup> Yunus compares charities with social businesses, emphasising that in their operations charities suffer from limitations from which social businesses are free, implying that the latter are therefore to be seen as the preferred practical option. If that is not what he intends the reader to understand, Yunus has completely failed to make his meaning clear.

#### PDSA

total net income, 2007, 53.16  
legacies and donations, 44.03  
merchandising, etc, 2.23  
preventive services, 2.29  
(Source: [www.pdsa.org.uk](http://www.pdsa.org.uk))

#### Save the Children

total income, 2007-08, 161  
donations and gifts, 57.8  
legacies, 15.3  
grants, 65.4 (received from UK and foreign governments, multilateral bodies such as the European Union, and international agencies such as the UN)  
retail, 7.6  
(Source: [www.savethechildren.org.uk](http://www.savethechildren.org.uk))

#### Sense

total income 2007, 69.4  
fundraising income, 6.4  
legacies, 1.6  
shops income, 8.7  
incoming resources from charitable activities:  
fees and allowances, 48.8 (paid by statutory authorities for services provided)  
statutory grants, 0.977  
(Source: [www.sense.org.uk](http://www.sense.org.uk))

#### WaterAid

total incoming resources 2008, 40.3  
donations (regular giving, legacies, etc, 25  
grants:  
DfID, 1.25  
Dutch Ministry of Foreign Affairs, 0.66  
Grant funding for specific activities, 10.6  
(Source: [www.wateraid.org](http://www.wateraid.org))

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It will be noted from the table that all of the above charities are dependent to a significant degree on *donations* from their supporters, the general public, the government and the big funding agencies. The contributions of profit generating retail operations are relatively small. Partnerships with government (DfID) also contribute some small portions of

revenue. Only one of these charities (Sense) appears to derive a substantial portion of its income as service fees (for day and residential services, provided to the public sector)<sup>15</sup>; even then such earnings (at about 70 percent of Sense's income) are well short of matching total outlays. *Any notion that charities such as these could be replaced by self-financing "social business" operations is wildly fanciful.* The problems such businesses would then experience cannot be swept under the carpet by supposing that - as if by some miraculous power of conjuring funds out of thin air - social businesses could make such operations commercially viable, independent of all subsidy. The practical implication is that *charities, specifically those operating in fields in which it is impossible to cover costs out of revenues earned, must be accepted as essential instruments for the advancement of social welfare.* Their contributions, and their problems, deserve much more attention than Yunus gives them.

If many urgent social needs are to be met, there is no way of dodging the problem of funding the many highly beneficial but *inevitably loss-making operations* which have to be handled by the charity sector. The two necessary elements of getting things done are initiative and enterprise and access to resources. The capitalist firm brings these together to make profit. A charitable organisation may have an abundance of initiative and enterprise but be constrained by want of funds. The problem for a charity is to access the funds which are essential for the organisation to act towards realisation of its vision.

### **Something to be salvaged?**

In the latter chapters of his book Professor Yunus moves on from the preceding theoretical generalities about completion of the capitalist system, to describe actual instances of activities which are bringing benefits to the poor and underprivileged. In this context we may find something of more practical value, specifically with respect to the financing of charitable operations.

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<sup>15</sup> On the other hand, Sense's international arm (SI) which is not involved in service provision to UK local authorities, depends for its funding almost entirely on grants from government and other donor agencies.

Consider the following case study. In his book Yunus makes much of a project which emerged from cooperation of the Grameen organisation with the French food company Danone. A joint operation was set up to manufacture and distribute an especially nutritious yoghurt to the poor children of Bangladesh. The intention (p.138) was to “run the business in such a way as to incur no losses and to generate a small surplus. Out of this surplus, the initial investments of the two parties would be repaid as early as possible. After that, the joint venture would pay the investors a 1 percent annual dividend on their original investment.” (With hindsight, Yunus would have preferred not to include the dividend provision.) This set-up is proudly presented (p.137) as “the world’s first consciously-designed multinational social business”.

The arrangements for financing the operation are interesting. A fund was created (the Danone Communities Fund), 90 percent of the assets of which were to be invested in money market instruments yielding a respectable rate of return; the remaining 10 percent was to fund “social businesses” – such as the yoghurt scheme - *which would yield no return*. “Taken together, these two pools of money will provide investors with a near-market yield on their money, while at the same time supporting businesses that are bringing specific social benefits to people in need.” (p.171) This ingenious arrangement achieves two objectives: (1) it minimises the pain of benevolence to participating Danone shareholders who agree to substitute income from the fund for dividends on their shares; and (2) it provides interest free funding to the yoghurt operation. Thus the Danone joint project, part supported on non-market terms by the operation of an external fund, does not in actual fact exemplify the idea of a genuinely independent “social business” covering its costs and “doing good” in a manner which is somehow beyond the capabilities of a normal firm. It is actually a subsidised charitable operation. We note too that while a similarity seems to exist between the Grameen-Danone joint operation and the relationship between (for example) The Body Shop and The Body Shop Foundation, the terminology employed in that case is more conventional: The Body Shop is of course described as a normal for-profit company, but the Foundation, supported by the profit-seeking company, is unambiguously identified as a *charity*.

From a more general perspective, the Grameen-Danone project exemplifies a mode of funding which may be available to charities seeking financial support – that of doing a deal with a profitable commercial operator who is prepared, at least up to a point<sup>16</sup>, to forego profit and provide backing to a charity. As illustrated by the Danone example, a profit-orientated firm may, out of goodwill (or with an eye to its public image) be willing to support a non-profitable social operation. This can of course be no more than a marginal activity by a large profit-seeking firm, willing to sacrifice some element of profit to such an operation, but could well be extremely valuable to a charity, in providing a reliable longer-term flow of funds, and reducing dependence on other, variable short-term sources.

Another strategy employed by the Grameen organisation for funding loss-making operations is the cross-subsidisation of otherwise unviable activities from surpluses generated in other operations. For example, Yunus says (p.99) of the eyecare hospitals which Grameen plans to set up:

The business plan for these hospitals has been carefully worked out. Pricing will be done on the “Robin Hood” principle. Regular patients will pay the market fees, while the poor will pay only a token fee. If our calculations are right – and we’re able to provide first-class eyecare and thereby attract enough paying patients – the hospitals should be self-supporting and able to expand their service offerings indefinitely

He repeats and elaborates (p.166):

The eyecare hospitals will be based on a business plan that may become the simplest and most popular format for social businesses. In order to become sustainable while also serving the social objective of delivering eyecare

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<sup>16</sup> Shareholders may well express misgivings about paying for not-for-profit ventures; the care taken to sweeten the charitable pill for Danone shareholders is suggestive of limits to their generosity. Doane (2005, p.26) comments that “when shareholder interests dominate the corporate machine, outcomes may become even less aligned to the public good”.

services to the poor, the hospital will employ a multiple pricing policy. It will charge the regular market price to patients who have no difficulty in paying the fee (for a cataract operation, for example), while providing services to the poor at a highly discounted rate or for a token fee. The profit made on the market-rate charges will subsidize the services provided to the poor. This kind of multiple-pricing policy can be applied in many social businesses.

Just as he says, multiple-pricing can be – and is – employed in other Grameen operations:

Grameen Bank also uses multiple pricing as a way of ensuring that economic benefits go to those who need them most. We charge 20 percent interest for our regular borrowers. This is an unsubsidized interest rate. Recently we began serving another class of borrowers – the beggars. Loans given to them are interest-free – in other words, 100 percent subsidized. We find no problem in keeping these two markets separate from each other as well as separate from the broader credit market.<sup>17</sup> (p.180)

The strategy is further explained. (p.180):

. . . in designing a social business, one has to be innovative in keeping multiple markets effectively separated. Sometimes it will be done through packaging and pricing, making the same product look very different depending on the target market. Most middle-class or affluent people would feel uncomfortable buying products clearly packaged and designed for the poor, sensing that they are unfairly taking goods intended to help the unfortunate as well as lowering their own status by buying such goods. In other cases, markets can be separated by the place and method of sale. When designing the Grameen Damone operation, we decided to locate our first

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<sup>17</sup> It is reported that if relatively well-off women seek credit from the Grameen Bank, they will receive a home visit from the Bank's enforcers and instruction in the Bank's lending policy.

yogurt factory in a remote rural area so that [the product] would reach the poor first rather than showing up in the markets of the capital city of Dhaka. . . . In time, we'll introduce another version of [the product], which will be marketed to well-off urban consumers at a much higher price.

The purpose of the price-discrimination policy is, clearly, not to make an over-all profit, but to derive, from clients able to pay a relatively high price, a revenue surplus to be used to subsidise below-cost provision to others less able to pay. Again, we find in Yunus's account of Grameen activities good practical guidance. (There is though no need to bring into this discussion talk of social business: the agencies whose cross-subsidising strategy is described – not-for-profit undertakings meeting a social need – can, confining ourselves to conventional terminology, perfectly well be described as charities. While these are certainly charitable operations, they do happen to fall into the sub-category of “cost-covering” charitable activities – the (perhaps relatively small) class of charities to which the Yunus label of “social business” can be applied. But we don't believe that anything is gained by introducing that term – it is essentially redundant.)

We may say, therefore, that Yunus is pointing towards two alternative ways of providing a reliable income stream (independent of piecemeal charitable donations) to a charitable operation: – in one instance the charity establishes a contractual link with a profit-orientated business which is, for whatever reason, willing to use some portion of its available funds for charitable purposes; in the other case the charity develops an income-generating operation of its own, giving (at least partial) liberation from less reliable and predictable sources of funding. If we go beyond Yunus's discussion other funding possibilities may be identified: charities can work in partnership also with government: they can attract funding either by persuading government to support a project initiated by the charity, or by making use of their particular experience and expertise to carry out contract work on a government planned project. Finally, foundations such as the Big Lottery Fund and Comic Relief offer another source of funds for charities able to make a convincing case for support of the work they wish to do.



The practical issue here, of course, concerns the potential of these various funding methods: to what extent may it be feasible for a charity to cover its operating costs from its own revenue-earning activities? What opportunities can be found for partnerships with like-minded businesses? What are the prospects of a charity's programmes being able to win funding from government or other public donor?

## **Conclusions**

We began by recognising Professor Yunus's *practical* achievements in developing innovatory methods of helping the poorest in society. What Yunus and the Grameen organisation have achieved in breaking the bonds of poverty for the very poor in rural Bangladesh is widely admired as an inspiring example: Yunus certainly gets things done.

We conclude however that Professor Yunus's *theoretical* analysis of the kind of activities carried out by his organisation and of a general strategy for world-wide relief of poverty – as developed in this volume – is a step too far: quite simply, the analysis fails to convince. Professor Yunus believes that in the concept of “social business” he has found a new means to social progress – a hybrid business model in which the practical dynamism and financial self-sufficiency of a successful business are combined with the benevolence of charity, thereby creating an agent with the power to effect great positive changes. We take a contrary view: it appears to us that with his strategy of relying on “social business” Professor Yunus is barking up the wrong tree.

We reject the concept of “social business” as muddled and confusing. The notion of this newly invented type of business “completing” the capitalist system appears to derive from fundamental misunderstanding both of the nature of the capitalist system and of the relationship between economic theory and economic reality. Contrary to the Yunus thesis, we read “social business” - in so far as the term has any real world reference - not as denoting a powerful new business model, but as no more than an alternative label for a particular type of charity – one which happens to enjoy the (probably rare) good fortune of being able to pay for its costs out of the revenues it earns. *The Yunus strategy is too*

*good to be true: it conjures out of existence the real problem of funding socially desirable interventions which cannot be expected to recoup their costs.*

However, we do believe that Professor Yunus is absolutely right to look to the initiative and energy of what he calls “social entrepreneurship” to tackle social problems not satisfactorily handled by either private profit-seeking enterprise or government agencies. But it is the charity sector (*not* Professor Yunus’s notional sector of social business) that we particularly expect to mobilise these powerful forces for social good. And, if the great power of social enterprise is to be employed to good effect, it is essential that the agencies which comprise the charity sector have good access to resources. With that requirement in mind we may perhaps draw on Professor Yunus and the Grameen organisation’s enormous experience of funding and running socially beneficial interventions. Even if we take the view that Professor Yunus’s wonky *theory* should be set aside, we may nevertheless be able to learn from his *practical* know-how.

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