Is a For-Profit Approach the Best Way to Take Microlending Affordably to Scale?

An Oxford-style debate between Vikram Akula (pro), SKS Microfinance, and Alex Counts (con), Grameen Foundation, at the Asia Society, October 25, 2010. Moderated by Niki Armacost, co-founder, Arc Finance. Though we've done some light editing – meaning we've removed some of the redundant language that always finds its way into spoken conversation, removed transitions and instructions between questions, fixed the grammar here and there, and clarified a few points by placing them in brackets – this is otherwise the full transcript of the debate.

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Introduction by Niki Armacost

Welcome to the Asia Society, to what we hope will be a fascinating debate on the role of IPOs in microfinance. It's wonderful to have so many of you here today – in fact, we were oversubscribed. I'm not sure exactly what the amount was – perhaps it was 13 percent, Vikram, like the oversubscription on your IPO. [laughter]

The format we're going to use is an Oxford-style debate. The Oxford debates have been around for about 200 years, and were made famous by the Oxford union. Sometimes they were theatrical; sometimes they were entertaining; they were always interesting and inspiring, and we hope very much that the event today is going to be of that kind.

In our modified version of the debates, we're going to start out with a motion; one side will defend the motion; the other side will argue against the motion. The person in favor of the motion will speak for about 10 minutes; the person opposing the motion will speak against for about 10 minutes; and then we're going to have two sets of periods of rebuttals, for about three minutes each. At the end, I'm going to ask the audience to ask questions or make comments.

So, the motion before us is this: This house believes that the path that SKS took to achieve its IPO represents an ideal model for the poor worldwide.

Before I start, I'd like to introduce our very distinguished speakers to you. We have Vikram Akula, here in spirit with us [laughs, since Vikram is speaking remotely from India], who is the founder and executive chairman of SKS Microfinance. And we have Alex Counts, who is the president and CEO of Grameen Foundation.

Vikram, it's great to have you with us. Thank you for joining us in what must be the middle of the night for you. We really appreciate it.

By way of introduction, I want to point out that Vikram and Alex actually have a number of things in common. It turns out that both of them grew up in New York; both were Fulbright scholars whose studies made them passionate about helping the poor through microfinance; both were inspired and trained by Muhammad Yunus, the founder of Grameen Bank and a Nobel laureate; both are published authors – Vikram just released his book, *A Fistful of Rice: My Unexpected Quest to End Poverty through Profitability*, and Alex's most recent book is *Small Loans, Big Dreams: How Nobel Prize Winner Muhammad Yunus and Microfinance Are Changing the World*. I should say to you, by way of third-party endorsement, that these are both excellent books, if you have a chance to read them, and in fact, on your way out, you can purchase them, and you can have Alex sign his in person, and perhaps we can forge your signature, Vikram!

Finally, and perhaps this is one of the most interesting things they have in common, in 1997, both Alex and Vikram started not-for-profit organizations focused on microfinance. I don't know if you realize that, Vikram. But the paths they took with these organizations were actually quite different.

The organization that Alex founded, Grameen Foundation, is a not-for-profit organization focused on enabling the poor to escape poverty using microfinance and technology, and it has an annual budget of about $25 million. Grameen Foundation works with MFIs, rather than directly with poor clients. The organization Vikram founded [SKS Microfinance] was a not-for-profit MFI that became a for-profit company in 2005, and then this summer Vikram and his team took the company public, raising $358 million through an IPO.

This debate today is, in many ways, about these different paths. Those in favor of IPOs for microfinance argue that it is an efficient, quick, effective way to raise the needed capital for rapid expansion and growth, thereby enabling MFIs to reach more and more poor people and integrate them into the financial system. Those opposed to IPOs for microfinance say that there are lots of other ways to raise capital – for example, becoming a conventional bank and taking deposits from the public – and that the promise of microfinance is to grow the income and assets of the poor, not those of shareholders. So you can see, there are quite different opinions.

So, before we begin the debate, again, here is the motion: This house believes that the path that SKS took to achieve its IPO represents an ideal model for the poor worldwide.

Before we start, a very quick show of hands of those who are in favor of the motion [looks around] – I would say maybe about 30 percent. Vikram, you'll be delighted to know that your investors who are here all put their hands up! [laughter] Those who are against the motion? [pause] Those who are undecided about the motion? Okay, you're going to be the swing voters. We have perhaps a slightly larger number of people who are in favor of the motion at this point.

Vikram, you have 10 minutes to defend the motion.

Opening Statements

Vikram Akula (VA): At the outset, let me thank the Asia Society for hosting the debate, thank Niki for moderating the discussion, thank the Schwab Foundation and other foundations sponsoring the debate. I'd also like to say hello to Alex as well – it's good to see you.

Let me start by framing the issue. There are 3 billion people living in less than $2 a day. These people definitely need small financial services – microcredit, microsavings, microinsurance – in order to have the economic tools to help lift themselves out of poverty. Now 35 years ago, Professor Muhammad Yunus invented a way to lend money to these poor women who don't have collateral, by inventing the idea of group lending or joint liability groups and, in so doing, he proved to us, you actually can put money in the hands of the poor, they can earn income, and step by step, get themselves out of poverty.

Muhammad Yunus proved to us that microfinance makes a tremendous impact on poverty and that is precisely why he was awarded the Nobel Prize. But, for all the success that microfinance has, for all the impact that it has shown, there is a fundamental flaw in microfinance, a fatal error, and that is, microfinance hasn't scaled large numbers. As I mentioned, across the world, 3 billion people in the world living under less than $2 a day. That is 600 million poor households. And today, maybe 120 million households have been reached. That is about 20% of the poor households in the world. Even less if you think of it from a credit perspective. That's an estimated need of about $300 billion, and maybe $50 billion is what the annual disbursement is. Now, that is about 15%.

If that happened in any other industry, in IT or telecomm, or consumer packaged goods, we'd write off the industry as underperforming. Yet, in microfinance, we tend to accept that level of performance, and consider it a good thing. The fact is, we're underperforming in the sector. We need to scale out, scale up, much more rapidly, to many more poor households, if we can truly harness the power of microfinance to help people get out of poverty.

Now, one constraint of scaling up, probably the biggest constraint in scaling, would be lack of access to capital. And this is the case, because most of the MFIs out there, and there are thousands of them, typically depend on donor funds, or some kind of subsidized funds, or soft lending. As a result, they don't have the capital to scale up to large numbers. In fact, close to 90% of the industry, each of these MFIs has about less than 10,000 clients each. Very few, less than 2%, are really up over half a million clients or more. Because of the constraints of capital, the MFIs tend to be small.

Now, this hit home to me before I started SKS, when I actually was a field worker at one of these small NGO MFIs, and I would go out and deliver loans, collect re-payments, and I would see this tremendous impact microfinance would make on a poor family's life. But what would happen is, many women from more remote villages would come to me and say, "Can you start in our village? I want to start a small business and also get out of poverty." But we'd always have to say, or what I'd always have to say to them, "You know, we depend on donor funds. We can't go into your village. I'm very sorry." And they would walk away disappointed.

Now, on one particular day when this happened, a very poor woman – emaciated, torn sari – clearly, she had walked quite a distance to ask me the same question, and again, I had to say, "No, we don't have funds." But this woman simply didn't walk away disappointed. She looked me in the eyes and she asked me a question that I will never forget. She asked, "Am I not poor, too? Do I not deserve a chance to get my family out of poverty?" She wasn't asking for a handout. She wasn't asking for a dole. She was simply asking for an opportunity. And that question for me was a very jarring question, because here I was, thinking I'm trying to help her keep out of poverty, and what her question made me realize was that, if you do microfinance in one set of villages but not in the neighboring set, it is almost like you are doing an injustice. It is as if you are a parent who sends one child to school, and then keeps the other one back.

And, for me, that question was so jarring that I actually left my NGO, went to the University of Chicago, and tried to answer that poor woman's question, which I rephrase as, "How do you design microfinance in a way that you never have to say no to any poor person who is simply asking for an opportunity?" And I came back, in the end, with the idea that if you run microfinance in a commercial-oriented way, in which you could tap capital markets, then you won't have this constraint on capital. Then in fact, you will be able to say yes to any poor person who wants an opportunity. But this was a radical view at the time, for that matter, even today, because the conventional view of microfinance, and the view of Professor Yunus, is that microfinance should be a social business – no profit, no loss. You go to investors, you get social capital, you return that principal with no profit.

I had a very different view. My view was that, if you are trying to raise $300 billion to put into the hands of the poor, there's no way that you can get it by saying, "no profit, no loss." In fact, the only way that you can get $300 billion is by going to a commercial capital market, and the only way to get that commercial capital is to be profitable. That's what we tried to do with SKS. We started as an NGO, because in 1997 and 1998, when we first started, the idea of commercial investment was unheard of. Then gradually, as we were able to convince people, we had angel investors, then private equity groups, venture capital and, eventually, we most recently did our IPO.

Now, as a result of that, in 12 years, we've reached 7.5 million clients, and given out over $3.5 billion in loans. And just to put this into perspective, the Grameen Bank today maybe reaches 8 million clients, but it took the Grameen Bank 35 years to do that. We have reached 7.5 million clients in about 12 years. That's three times as fast, and the bulk of that growth came in the last five years when we converted into a for-profit, when we went from 200,000 clients to today's 7.5 million clients, which would be seven times as fast as the Grameen Bank.

Now, this is no disrespect for Professor Yunus, who I do consider to be a pioneer, and someone who we emulate, but it is to say that doing microfinance in Bangladesh 35 years ago was much harder than doing microfinance in India today. And we see it as incumbent upon the new generation in microfinance to take that model that he invented, and push it to the next level. And part of pushing it to the next level is to see how you can scale up, much more, much faster, than has ever done before. Today, we have been able to do that. Having disbursed $3.5 billion to 7.5 million clients, today we can say to anybody who asks us, "Yes, we can give you the loan." I can go back to that woman that I met, 15-20 years ago, and say, "Yes, you too can have an opportunity. How much do you need to start your small business?" That's why this is so important to tap capital markets.

Now, some people argue that, OK, by tapping the capital markets, you get more capital, but your interest rates have to be higher. To the contrary – if you look at SKS as an example, we've actually consistently lowered our interest rates, from what it was earlier, three times. At the same time, we increased our ROE. And the reason why we could increase our profitability while simultaneously lowering our interest rates is because the volume gain. As you get economies of scale, as you get more efficient, you can pass that on to your clients, but because you've got a larger base, you can actually create greater shareholder value. In addition, since you have a distribution channel today throughout, you know, 100,000 villages, you can start adding other products such as insurance products, and in the future, other types of products, so that per customer you're actually creating more and more value for your shareholders, whereas each product that is provide for them will actually be lower cost than you could do otherwise. This is why we think there's no conflict necessarily between profitability and making an impact on poverty. In fact, the more profitable you are, the more poor households you can meet, and that's what we've tried to pursue at SKS.

I'll make one final point after here, it's not to say that you couldn't do microfinance with donor funds and you couldn't have lower interest rates and any results. The point that we are trying to make is, you can scale much more radically if you tap into capital commercial markets. And this becomes very important in a day and age when donor capital is very scarce. We feel that that donor capital is better used to serve the poorest among us, for example, let's say the ultra poor or let's say orphans who are, you know, orphans from AIDS situations or other disadvantaged communities. That's where those scarce donor funds need to go, and what we say is, let the private sector, let the commercial approach, work in the areas it can and free up those scarce donor resources in areas where a commercial approach or a private-sector approach can't reach. In this way, you can actually create greater impact, not only for the clients you serve who tend to be in microfinance, but even for those most disadvantaged, because you free up donor capital to go to those sectors. Thank you!

Alex Counts (AC): Good evening. Let me first say that I am very grateful to the Asia Society, to Vikram for joining us, to Niki, and to all of you for coming. To get out of the way the two obvious questions – the answers are yes – yes, I will be signing Vikram's book [laughter from audience], and yes, I do think it's an unfair advantage that he had a practice debate with Professor Yunus a few weeks ago [laughter].

I want to say at the outset, seriously, at Grameen Foundation, we're not against commercial approaches. We think commercial approaches have their role in microfinance. In fact, one of our signature programs around loan guarantees has been pushing that quite aggressively. Also, we are not against IPOs, per se. They have pros and cons, like any strategy to mobilize capital.

Also, at the outset, I will say that I have a great admiration for Vikram and what he's done. As someone who's been involved in this field for 22 years, as someone who has built an organization myself, I have a sense that he has done something extremely impressive. Grameen Foundation also, to be very clear, has been supportive, has played our own small role in SKS's success story and we view our investment as a good one. We have not been investing much in terms of our talent or money in recent years, but we were involved, to a degree, in the early years.

But, we have some disagreements, the reasons why we don't feel it was a great investment, and I'll explain those. But I will say also that unlike a growing number of US-based microfinance non-profits, we don't seek to own and control the organizations we support. I see that as a worrying trend that we are not part of. I think that the Indian microfinance decisions and mistakes and achievements are to be made by Indians, and not by us, so we don't seek to control or own MFIs anywhere in the world.

So what are our disagreements? I'll say that, first of all, I generally put MFIs in three categories: unethical; ethical and profit-maximizing; and ethical and social-purpose-driven. I think the unethical – we are not talking about that here – but it is a growing issue in our field. Fly-by-night MFIs that collect savings, give loans, take advantage of poor people. I'd say [that] Vikram has moved very precipitously in the last few years towards the profit-maximizing [approach]. Ethical, but basically about maximizing profit, hoping that that will somehow benefit the poor, but that's really a secondary [consideration] in terms of the achievement metrics.

So what would it look like if what am I talking about, the social-purpose-driven MFI, what decisions could Vikram have made in his model, that we have, in fact, had many spirited discussions about? First of all, whole areas around social performance, of whether you benchmark your impact on poverty in your poverty-reduction outcomes to international standards, and make that one of the key public benchmarks of your performance. So, organizations – 75 and counting – organizations and networks have adopted our tool, the Progress out of Poverty Index, which was developed by the Ford Foundation, CGAP, and Grameen Foundation. There are other tools, [such as] the Poverty Assessment Tool of the University of Maryland. So these are tools that allow for real visibility and accountability, and not just "Are you making a profit?" but "Are people overcoming poverty?" and, in fact, "Are you dealing with the poor to begin with?" SKS has chosen not to use any of those international tools, to my knowledge.

SKS has also not undergone an external social rating, to my knowledge, which is a way to have [someone] external come in and to say, "Are your practices consistent with being responsive to the poor?", again, benchmarked against international [standards]. About 150, organizations that have had a social rating. Nor has SKS commissioned, much less paid for, despite its profits, an external impact study using, for example, the RCT, or Randomized Control Trial, methodology. This would allow for a score card, and not just, "Are they making profits?" but, "Are people coming out of poverty?" So, groups that are social-purpose-driven gravitate towards these measures of success.

Second of all, I think social-purpose-driven MFIs, there are many ways to do it, place limitations on private benefit, to the management, to the owners, and especially to foreign investors. Some of them have adopted caps on the profitability of the organization – any profitability beyond that gets channeled into lower interest rates for clients. And, we can debate reasonable limitations on private benefit in the microfinance case, but I think that if you look at the public data, probably by most standards, reasonable limitations have not been the case as SKS has gone to market and people have cashed in on this big success story.

Thirdly, I think another hallmark of this is where client benefit, especially in the case of IPOs, is a hallmark. Grameen Bank, as you know, is owned 95% by its clients. SKS actually built-in client ownership early on, but once the IPO happened, the clients didn't have any direct financial benefit. And so this, I think, was a gap, even though the shares that they were staked to own are worth about $220 million, according to CGAP.

So, there are other models of MFIs that are social-purpose driven, and many of them have gone to significant scale – the Grameen Bank, where the CEO and the management own no shares of Grameen Bank, they own no shares of any Grameen company, including several that are extremely profitable, like Grameen Phone. The profits that are generated – and Grameen Bank is profitable now – go to student loans for client's children, go to a beggar's program for the ultra poor, and go to dividends to its owners, the poor women who borrow from it.

Also, Grameen [Bank] did something that, on commercial terms, made no sense. It helped create an organization to provide low-interest loans to its competitors, to help grow the microfinance sector. And, by the way, one of the reasons Grameen is not serving more than 8 million borrowers is there is hardly any woman in Bangladesh who doesn't have a microloan right now. The market is saturated. It would be unethical for them to try to grow beyond that, within Bangladesh, because actually Grameen helped stoke the competition, which created a vibrant marketplace, and so they've grown to as much as they can really grow within that country. Also, there's the ownership. As I mentioned, [in the case of Grameen Bank it] is almost all clients, and no foreign ownership. The interest rate [Grameen Bank charges] is 20% or less – that's the highest interest rate. Grameen could have charged more, to maximize profits and "wow" potential investors early in its years. It couldn't now, because competition is too fierce, but chose not to, on ethical grounds. Importantly, savings was an engine of the capital to grow, and not external investment.

I was just at a group in Ethiopia, the largest MFI in Africa. They are an example of this. I won't go into it. Also, Equitas and even Procredit – these are two highly commercial organizations – have agreed to voluntarily cap their return on equity in order to demonstrate that they are not simply profit-maximizing, in all respects.

Investors have also shown that they are willing to put money behind socially motivated organizations. In fact, one estimate is that there is $2.7 trillion of socially motivated capital invested in the U.S. marketplace right now.

So why is this important? Is this just trying to have a Boy Scout standard for microfinance? Well, I think [that when] MFIs adhere to social purpose ideals, they create the political space for policymakers and politicians to let microfinance grow and interact in a commercial way with the poor, which is still controversial in many cultures.

By adopting these social-performance metrics, by putting limitations on private benefit and foreign ownership and foreign benefit, [especially] foreign investor benefit, you can often get tax breaks, but even more importantly, avoid interest-rate caps, which could be destructive. India, right now, and perhaps in part because of the IPO that SKS did, and the way they went about it, is now undergoing, at the federal and at the state level, significant government threats of regulation, which could be very destructive. In fact, the situation in Andhra Pradesh right now – I don't have the most current information – is very distressing, where some very highly ethical practitioners of microfinance are being threatened by being put in jail for doing microfinance. So, this is being very politicized.

And I think in any country where you don't have social impact metrics built in, and where there is significant private benefit – one might say excessive private benefit – when people who are not poor [benefit financially from] microfinance, that controversy can be stoked and it can shrink the political space for microfinance to operate. And this is one of the things, I think, Professor Yunus did by organizing it the way he did, and reaching total saturation within that country between him and his competitors. He did it by an ethical standard that was so high that political space was there to reach that saturation point, a point that India is still a long way from, and we hope that this potential backlash and crackdown will not stop it from reaching that saturation point that Bangladesh has achieved. Thank you.

Rebuttal 1

VA: Thank you, Alex. I think there were a number of great points that you raised. Let me just take a couple of notes in turn. Let's start with impact on the client. While is no doubt true that we don't use the PPI, we have done an impact study, that is a Randomized Control study, this was administered by a third-party agency called EDA and then funded through SIDBI, one of the government banks that lent to us. And just to give you some of those results, the results suggest that the household income increases by 45% per annum, the productive assets increases by 36%, the additional revenue streams increase is by 57%, and investments and housing increase by 23%.

Now, the point, the reason why I am making that, though the social impact is a complementary goal to the profit motives, you can see these results show that there is a tremendous impact, in terms of poverty eradication. And I think what is most important is, we get that impact by spending zero donor or subsidy dollars. So the measure is not simply, okay, the impact is good and maybe it is slightly less than the impact from the donor-driven entity, but I think the key metric is for zero dollars of donor funds, you are getting an impact on poverty.

Now clearly, if you put in some donor funds, you are going to get a greater impact on poverty, for the particular locale. But here, by doing zero dollars, there really is no limit to the number of people who can have their income increase by 45%, because there is no subsidy required. And while there is certainly maybe $2 trillion in donor funds, we feel that [those] donor funds should be better spent on that absolute poorest, the ultra poor, the AIDS orphans, and others, who could never participate in, let's say, a microfinance program.

And so, the zero sum that we see is, any donor funds that go into a microfinance program that otherwise, with commercial capital, could create an impact means donor funds are going away from poor people or ultra-poor communities or more disadvantaged communities, who would greatly benefit from those donor funds.

The other thing I want to raise here is from a client perspective, it does not matter whether the money is foreign or domestic. It doesn't matter whether the investors are earning very high profits or not. What matters to them is, "Are they getting a loan on time?", "Can they generate income?", and "Can they get their families out of poverty?" And what we see from our clients, at 45% increase in income per year, they are actually doing higher returns on investment than even the investors get. But let's say, hypothetically, an investor get even better than that. It's immaterial to a poor woman what the investor is getting. What is material for her is, "Is she doing better than she would otherwise? Is she able to get her family out of poverty?" And for us, what is material is, "How many people can we give that opportunity to?" And I think that the commercial approach certainly does that. Thank you!

AC: First, I was very pleased to hear about this study, Vikram. I would also be very much, and I am saying this honestly, I would like to see it. We commissioned a researcher to actually look at all the studies, published studies of microfinance impact – did it in the spring of this year – and she didn't come across this study. But if it is published and maybe not that well-known, then it could be brought to more people's attention and included in a wider literature of impact studies.

Second of all, in terms of donor funds, you know, very few of the mature organizations receive meaningful amounts of donor subsidies right now, whether they are social purpose-driven or profit-maximizing. Donor funds and microfinance right now are for seeding organizations, and seeding ideas and tools in microfinance. So I think that you're not talking about organizations that I am favoring, [that take] a different approach, absorbing a lot of donor funds. In fact, Grameen Bank dismissed its donor consortium in 1995, 15 years ago, and said "we're done with you. We're going to mobilize savings and we are going to use our own resources to go forward." And that is much more common than otherwise. So, I think it's bit of a false dichotomy.

Second of all, I think that in microfinance, with Vikram, with what SKS is doing today with its investor pool and management team, may or may not be doing what it is doing in five or 10 years. I think that organizations that are set up to maximize profit and to satisfy investors who may have no social motivations will tend toward products and clients that maximize profit. Those aren't always the products or clients that contribute the most toward poverty reduction. And I think whatever that trend is, I think the trend will be toward the products and clients that are most profitable, and I think that will stunt the poverty impact over time.

Lastly, yes, it does not matter to the poor woman whether the money that she got is coming from savings, or local loans, or foreign loans or foreign investment, but microfinance happens in a socio-political context. And so this is why in 2006 in Andhra Pradesh, politicians mobilized against microfinance. Clients of SKS, SHARE and many other groups did not get loans for seven or eight month as the politicians turned the screws. Finally, that was resolved, and there were many people who helped resolve it behind the scenes, but we see that, in the aftermath of the IPO, this backlash is gathering steam, and may in fact be more severe and more on a national context than what happened in 2006, so that's worrying. And so, where money comes from, who's benefiting and profiting, in that context, does matter.

Rebuttal 2

VA: You know, Alex raises an important point that I think helps illuminate the discussion, which is, the fact is that in Grameen Bank, they were able to depend on savings. And certainly, if one had an opportunity in a regulatory regime to mobilize savings, the need for, you know, external capital, you know, certainly goes down. The fact is, however, that Bangladesh is a very unique situation. By a special act of Parliament, Yunus was able to get Grameen Bank a banking license to take savings. That is just not the reality in India. In most of the developing countries where you've got very, conservative, central bankers, the length of time it would take to actually mobilize or wait for a banking license, or the ability to take savings, would be a constraint. We simply don't think that it is fair to keep a poor woman, or many poor women, waiting until that regulatory regime changes.

So while it would be great to have a savings-like regime, the fact is that we have to start with the reality we have. India has the most poor people in the world, unfortunately, and going to the capital market is the place that we are going to be able to get that, you know, capital. The other thing that I will mention is that I don't think there is a dichotomy between, or tension between, profits and impact. As I mentioned, over the last three years, we've reduced our interest rates three times, yet simultaneously our return on investment has gone up. And the reason why I think this is important is, I think good business is not about extracting from the poor. Certainly, that's [true of] a good social business, but even a good for-profit business, it is more about doing what's right for the customer.

So, for example, in SKS, we don't incentivize on loan size. Now, if you do so you'll actually get more profit from the customers, but we don't do that, because the idea is that to do what is right for a customer, even if she needs only a $40 loan, and eventually, if you treat her right, she'll stay with you as she moves up the economic ladder, and that is when you create shareholder value. So, it is really a question if you run business looking at long-term shareholder value, you actually end up doing what's best for the customer, and that creates a greatest social impact. I think that is the right way to run business, whether it's a business that works with the poor, or a general business as well, but clearly a business that works with the poor that's the way we've been able to create the greatest shareholder value, and that's the way we have been able to simultaneously reduce our profit. One thing to say, theoretically, that there's an opposition, but the fact is we've able to do that and demonstrate that you can actually have both.

Just one thing on the political backlash. You know, there is no doubt a political backlash in India going on right now, but I would say that the backlash now and previously, it's less about uncomfortability with, you know, profits, and more about politicians slowly losing their hold over the poor. Any time you disturb vested interests that typically had a hold – oftentimes there is a very close nexus between local money lender loan sharks and politicians – there will be a backlash. Professor Yunus has gone through this at the Grameen Bank many times over, and he has overcome it, and that gives us inspiration that we will here. And I think that's the key thing that's going on here – you're disrupting a social system to put down the poor and it's less about, you know, whether it's right to make any profits or not.

AC: I would agree with Vikram that, there is, and we've seen this in many countries, the opportunistic politicians who are using microfinance, and how it is liberating people and creating new relationships, and using that as an excuse [to crack down]. I think there are also politicians [who oppose it with good intentions]. I mean, Vikram says he has decreased his interest rates. He decreased from rates, even two rates, that are very controversial in any context, even in the United States, certainly India. In some countries, charging any interest to the poor is controversial. He's not named the rates. We get into that short hand in microfinance, because it's a bit charged to actually name the rates that we charge, which in the case of Grameen, one of the lowest in the world, is 20% and [even] that's controversial. So, I think that there are politicians with actually good motivations putting pressure on microfinance, some by the wrong means.

But, I think what SKS could have done and what some MFIs, including Grameen, have done, is to inoculate themselves against the inevitable backlash that comes from actually doing right by the poor, by adopting clear metrics around what they are doing to move people out of [poverty] – that they are actually working with the poor and the poor are coming out of poverty. These are the metrics like Progress out of Poverty Index and there are others – that's not the only one, it's just the most widely used one. [They] could also inoculate themselves by putting limitations on profitability, as some MFIs are doing, and limitations on the private benefit of senior staff, of investors, even middle management staff, and particularly how that benefit compares to the benefit of clients, in an event like an IPO – by not inoculating themselves against that, leave themselves open to these opportunistic politicians and regulators to have a field day, and that just what we're afraid of.

The other thing that I worry about – I don't begrudge Vikram and his millions that he has earned out of the IPO. I have enough money to do the things that I want to do in my life, and he does too, and so we're both in a position that the world's poor are not. However, when I look at the example of SKS – which is going to be followed, like the example of Grameen – I think about [other] organizations. Because in many African countries, [or] for example, in the Philippines, you actually *can* mobilize savings. There is the regulatory support for that. It's only going to grow. But the question is, when you have an MFI manager saying, "Am I going to go through the process of qualifying to take deposits and use that as my engine, or go the private-equity route to an IPO to becoming a millionaire and doing good by the poor, hopefully?" Many organizations may not go through that painstaking process of local mobilization of deposits or investment from social investors, who have a double-bottom-line objective, and [instead] will go for this quicker route, which promises ideally, theoretically, benefit to the poor, but also, significant private benefit to themselves and their staff. I'm worried about that because I think the longer route, the route to the savings, and mobilizing local capital, is probably the safest and surest route to benefit the poor long-term.

Q&A

Q: I was wondering if you could talk about how financial disclosure or transparency to clients in general might mitigate the confusion in these debates?

VA: If the question is, "Will financial transparency, at the client level, help mitigate some of the political backlash?" Yes. I would fully agree with that and I think that some of the, you know, as Alex called it, the fly-by-night sort of rogue MFI that have come in, don't have the same level of financial transparency and I think that's caused some of the course the political backlash that happens. So certainly, you know, I think that would help alleviate some of this problem.

Now, the thing is, in microfinance, many organizations do this – we've all followed the Grameen model, in terms of, charging a flat interest rate because it's easier to administer, easier for customers to understand, and that has a different effective rate, and we actually determine a monthly rate also, which is how it's colloquially done. So, if you do it right, what we find is, the client will actually protect you, because then when a politician comes and says, "You know, the rate is not 'x,' but it's, you know, much higher than that," the clients are then in a position to say, "Well no, we actually know what the rates are and this works for us, and please leave us alone." So yes, I would agree that financial transparency, at the level of the client, surely would mitigate these types of problems.

Q: Alex, you had mentioned that there was a saturation in Bangladesh, and for India to learn from that. If the market is saturated, how do the people in poverty, rise to the, elevate to the middle class?

AC: Yes, a couple of things: First of all, saturation and, even beyond saturation, can be a negative thing. In fact, this is one of the complaints of some of the regulators in Southern India, and in some of pockets of Bangladesh, where MFIs, focused on profit maximization, or veering in that direction, have overburdened people with loans. So, you need to be aware of that. Again, I think it's still impressive that just like you and I probably get four or five offers to get credit cards every day in the mail, a poor woman in Bangladesh has roughly the same thing. Four or five MFIs coming to her door and offering. Now, that can be misused, as it is in this country, but it's still quite an accomplishment.

One of the things that we are finding is, you know, I don't think it is coincidental that there's been massive poverty reduction in Bangladesh in the last 20 years. Microfinance isn't the only reason for it, but I think it's a big reason. Nothing gets me more agitated, if you want to agitate me, than to say, "Well, microfinance in Bangladesh has been going on for so long, and yet it's still a desperately poor country, so it doesn't make a difference." And I say, "Go to Bangladesh now and read about what it was like 20 years ago." It's a world of difference. It still has a long way to go. Twenty years ago it is more or less like Haiti is today, frankly. It's not like that today. And in fact a new study is coming out that looked at the contribution of microfinance to the reduction of poverty – it's peer reviewed and is nearing publication – says that a very high percentage of the poverty reduction of the last 20 years in Bangladesh has been a result of microfinance.

One of the things that MFIs have had to do – and just one more thought on this – is that they've had to, or there's been an opportunity to, develop small- and medium-enterprise loan windows, to lend to the most successful borrowers. So about 12 to 15% of Grameen borrowers have the ability to absorb much larger amounts of credit than the others. Now, Grameen has figured out how to lend to them, generate significant profits from lending to them, but again, with its social-purpose orientation, rather than starting to bias its lending away from everyone else and just focus on those, has been committed to priming the pump to keep lending smaller amounts to those that can rise up to that level. And, second of all, to use the profits from [the larger loans] to make student loans available, healthcare, other services – which are either loss-making or marginally profitable – available, because again, there are no investors, except for the poor women themselves, that are hoping and looking for the share price to increase are looking for high levels of dividends. Their [the poor women's] bottom line is very different.

Q: My question is actually to both of you about what the profit motive does to innovation. It's clear that you see this often in the private sector, so I'd love to hear about your innovative process, Vikram, and then, Alex, if you can sort of answer how the Grameen approach also results in innovation and maybe give us an update on the mutualization model.

VA: I think the profit motive can actually harnessed in a way that does really create value for customers. I will give you a couple of examples here. You know, now that we do have investors and now that we're always sort of scanning for opportunities, what we have recently done is, we have these passbooks that we give to our customers, and we actually now sell advertising space on the inside of the passbook, and on the back of the passbook, and we're actually doing an insert. And this is actually tremendously increased – well, not tremendously – another other revenue stream, allowing us to actually continue to help to lower interest rates.

Likewise, we've done another, you know, partnership with major international retailer called Metro. It's a cash-and-carry, similar to Costco. And the way that model works is, we lend to these small village grocers and Metro is trying to get into that particular market. So, what we've done with Metro is a partnership where we take the orders, Metro delivers it to them, we're able to give that poor women an interest-free loan, and we pay Metro up front, and then Metro delivers it. Now, Metro loves it, obviously, because it gives them customers they otherwise wouldn't get. The poor women loves it because she is getting an interest-free loan and getting on a wholesale about 5-10% less than she would get otherwise, and then Metro gives us 2.3% commission. Now, our two-week loan, that's basically a 48% APR, so you're getting a 48% interest rate, she's getting an interest-free loan and lower cost on the wholesale, and Metro is getting market share they wouldn't otherwise get. And this is the way, I think, the profit motive potentially had an opportunity to make it win-win-win for everybody in the system because you are looking at these types of opportunities of getting rid of inefficiencies.

AC: I think the profit motive can be, I mean, it's been a powerful force throughout human history for innovation. I think it's a double-edged sword within microfinance. I think, first of all, much of the innovation that is happening within microfinance has been more, what Professor Yunus calls, social-conscientiousness driven. Some of the best innovations have come from people who've been, who've have no stake, no potential upside themselves, except for doing a better job helping more people better, faster. And that's actually has been the engine for most innovation in microfinance today.

I think if the profit motive is the sole source of innovation, I think what we'll see is, innovation around products that will be highly profitable, which are not always the products that have the biggest poverty impact. Also, they'll be around the clients that can generate the most short-term or medium-term profit, which tend to be the moderate poor, people above the poverty line. It doesn't tend to be the extreme poor.

In fact, one of my lessons, I was speaking to one of the wives of one of the leading philanthropists in microfinance, who used to work in the pharmaceutical industry, and she told a horror story, and I'm no expert on the pharmaceutical industry, but how the pharmaceutical companies who would come up with great innovations that deal with diseases, but when they figured out that there wasn't a lot of money to be made on treating that disease, they just shelved the solution, whether it was a treatment or a prevention. And, I worry sometimes in microfinance if this is the direction we are going. Are we going to come up with some breakthrough models to benefit the people within the microfinance infrastructure, reaching 150 million families, but because it doesn't have the potential to generate the next quarterly profit margin that's higher than the last one, are we going to shelve them or marginalize them? That's a future that I am not very excited about.

Q: This is really a follow-up to what Alex has just said that profit has been a very good source of innovation, but it's really the metrics around something that is the motivator. You know, you don't measure the Yankees' performance by profit, but you do measure the Yankees' performance – it's called scorekeeping...

AC: It's called wins and losses, yes.

Q: ...and they lost the other day, which, but we know it. Somebody kept score. We're keeping score in the profit arena, but we're not keeping score in any serious way in the value arena. There isn't a generally accepted system of value accounting yet, and until there is, a nice guy like Vikram, at some point, is going to be replaced by a nasty guy, who has absolutely no interest in the poor, but has a vehicle for doing a subprime, you know, program. So, you know, what are we going to do about value metrics, is my question?

AC: This goes to the heart of one of the things that Grameen Foundation is most passionate about, which is creating metrics or performance standards about what we're actually doing. It's a great example. I'm going to use it. The Yankees ultimately are valued, not by what their profit is. In fact, who could say how profitable they are, but everyone knows how many games they won, they lost, and whether they got to the World Series or not.

And so this is, it is as if in microfinance we're looking at the profitability of baseball and just, not even keeping score, and just saying at the end of the year, everyone was tied and we go home without a World Series. So, I thank you [for this analogy].

In fact, one of the things we say in microfinance is, "We value what we measure and we measure what we value." And so, within this profit-maximization model, we say, we're going to look at the profitability, and just kind of assume – on what seems to be one little red study, in Vikram's case, the SKS case – that the poor are benefitting. We hope they still are, as they were, whenever this study was taken, but we don't have metrics, certainly not published metrics against industry-wide performance standards. I think that's dangerous.

So, through our Progress out of Poverty Index and other tools, we're trying to create benchmarks and it's not easy, particularly when people see that a lot of social investors, and certainly non-social investors, don't seem to be too concerned about these metrics and want to, kind of, engage and put a lot of stock in the hope that if loans are made and repaid with interest, that the poor are advancing. But I'm not so sure in every case. I'd like to see the data, and not prefer to do it on hope.

On the replacement of leadership – we've put a lot of stock in someone of Vikram's ethics and smarts – very recently, something that I have not had a chance to talk to Vikram about, the CEO of SKS was dismissed. He was a traditional banker. I've not met the man. Knowing how traditional bankers tend to approach microfinance, I think it was probably a good thing, but I have no [way] to judge. But the point is, through going public, you open up a big can of worms. I'm told through press reports that this dismissal of the banker is now being brought up as a legal issue. Some are saying that investors were misled by having a banker who was then let go very soon [after the IPO], someone who had banking experience that others didn't have. My thing is, if Vikram's organization was owned extensively by the poor women and he could convince them that dismissing the CEO was a good idea, then I say, "Full steam ahead." Now, there are a whole bunch of others – in terms of regulators, the SEC, whoever – who now gets a "say" in that. That's a can of worms that I'm a little nervous about long term. Right now, I think SKS is firmly in the hands of people whose fundamental ethics and objectives I trust, but would that be the case in three or five years? I don't know.

VA: I think this is a great question. And, again, I think that if we say "social" versus "commercial," that's not the right way, I think, to think about it. If you look at SKS, we have not changed our philosophy and strategy from the days we were a nonprofit with donors, and today when we're a for-profit working with personal investors, because the strategy was not about doing what was social or doing what is commercial, the strategy was about doing what's right for the customer. And I truly believe that even if you strip away any social motive, if you do what is right for the customer, you actually create greater long-term shareholder value.

And so, I think the real distinction is: are you looking at short-term shareholder value – something that's extractive, pushing out larger loans, incentivizing people on collection – or are you looking at long-term shareholder value, which, if you do it properly, leads you to exactly to where someone who's socially motivated, you know, that's what they would focus on. Things like: giving the right loan size to the right customer, you know, at the early stage, not incentivizing on collections, so you don't have smaller collections, but rather you have a softer feel, where you understand the problems. We have been doing that from the outset. We are doing that today. And from the outset, I've had no ownership of the company, in the sense, that my shares or stock options, and there is no voting, but whether it was donors back then or commercial investors today, the reason why they go with this strategy is because it makes the right business sense for a long-term shareholder value perspective and I think that's the way we need to think about it. Anytime you look at short-term shareholder value, I think you could have problems. As long as you take long-term shareholder value, I think you end up where the socially oriented person, you know, is going to focus on as well.

Q: I was in Mumbai three weeks back and I attended a talk by somebody who had started an MFI, you know, probably three years back and, recently converted it to the for-profit model. I asked him, "At what point did you think you should convert to for-profit?" He said, "Even before I started the nonprofit, I knew that I was going to convert it to for-profit. So my question is, now, how do you prevent these kinds of instances, where you take all the benefits of a nonprofit, and, you know, do everything, and as soon as you scale up in our terms make the money out of it?

VA: Let me play back your question to see if I understood you. Your concern is, look, if someone is in this game to get a quick edge in and make money, that that could potentially be problematic, and I would agree with that, because I think that person is taking a short-term view, but I do know that the regulator in India, at the SEC equivalent, requires an initial investor, the promoter, they call it, to be locked in for a period of time. And it forces, if you will, a long-term perspective. You can't, in India, be promoter and look for a quick exit. You've got to be in the long term. I think the reason they do that is when new investors are coming in, that the benefit that it has, is that it forces someone to look at long-term shareholder value.

Now if the question is, rather, "Is the profit motive appropriate in the context of microfinance?" I've always believed that if you harness that profit motive in a way that brings more capital, then in fact you can actually create greater value by reaching out to more poor households and in this particular case, or this particular MFI, as opposed to, let's say, someone who didn't have that profit motive, wouldn't have as much capital, and wouldn't reach to as many people. The fact is that vast majority of NGO MFIs today serve less than 10,000 clients and, while those 10,000 clients may be benefitting from that [inaudible], I'm worried about the 10,000 who are not reached, the 10,000 after that that are not reached. As a profit motive reaches them, I don't think that's necessarily a bad thing, in fact, I think that's a good thing.

Q: I've read in the recent news about the suicides in Andhra Pradesh. I'd like you to hear what you think about that.

AC: It's interesting, I went to Cornell University and Cornell was always known as the suicide capital of the Ivy League. It's kind of a little bit morose to say that, and, of course, the argument there, I never delved into it, was that it was just simply they're more dramatic. People talked about it over and over, and [because of that] what was actually just a normal trend line was thought to be out of the ordinary.

In Andhra Pradesh, when there were rumors in 2006, when the politicians got agitated by microfinance, they somehow said that there were a lot of farmer suicides then, and they were caused by microfinance. And at that point – I can't speak to the ones now – we actually sent out a team to look at all those allegations, including that one [about farmer suicides]. And of what was supposedly hundreds of farmer suicides, we found that there were 12 suicides in all of that year in Andhra Pradesh where anyone in that family was a microfinance borrower. And we could find just one where you could plausibly say that pressure of repayment had anything to do with it. But the politicians were saying that [it was a big problem and microfinance was the cause].

So these are the opportunistic politicians that Vikram was talking about, and again, what I just say is that for some high-profile action like an IPO, I think that SKS could have taken more steps to inoculate itself against these inevitable charges – most of which are trumped up, some of which may be true, or partly true– and because of not taking some of those steps, that these charges are now gaining currency, and local and federal governments are taking or threatening action that could be extremely harmful across the board to microfinance in India, which would have reverberations really on a global basis.

So, again, I can't substantiate it. My hunch is, based upon our study in 2006, that yes, there are farmer suicides in every country and every region of every country, but can you say it plausibly has anything to do with microfinance? Probably not. Probably not much more than you might expect, given that people are borrowing and lending, and having crops fail for all sorts of reasons. But, again, it's an excuse that people who are, for various reasons, who are out to reign in microfinance will use. I'm sure they will use it again if we give them reason to mobilize against microfinance.

VA: I will just add a little bit on that. I think, clearly, that anytime there is a suicide, you know, it's a tragedy that hits us deeply, and our heart goes out to the families that have had to suffer this, but I think Alex is quite right that putting context, you know, even the numbers that are being attributed now, I think it was some 17 of our members in this state – and we have a base of 2.2 million – you know, the question is, is that lower that the norm? And our data suggests as it is. And, again, to Alex's point, none of these borrowers were defaulters, so there's really is no pressure for not being able to make these payments because they were actually fully repaying.

We actually did go out to the families to investigate ourselves, and realized there were other complex factors, you know, that drove this. And as Alex said, I think, you know, suicide, not to be gloomy about it, is a very political thing, in an Indian context. There are a variety of things that get attributed of causes of suicide, that if you dig deep, you know, maybe there are other things that are going on there. I need to be slightly delicate as how I say this since this is a webcast as some local groups will be listening to this, so I am going to be a little bit careful but I would echo what Alex said – that is, oftentimes, what's attributed as the cause, you know, there are some other things going on there, and there's a good reason why, or a vested-interest reason why, it is being attributed this certain way, especially if you look at SKS. I mean, we have been operating 13 years and these accusations have never come up until, you know, the last three weeks.

Q: This question is, has to do with some of the dilemmas of growth when you're growing at a rapid pace and you create incentive structures for the field. And, how do you think incentive structures given the way a for-profit entity works in terms of, the incentive structures for the field staff going all the way up to management, how does that profit incentive affect social performance on the ground? Because I think what we see a lot, especially in the social performance task force, is the way that field staff are measured for performance, in more socially motivated microfinance institutions, they're valued by their performance based off of disincentives, not profit incentives for growth and targets et cetera. So, how do you address that as a for-profit entity?

VA: So, you know, again, I don't think there's necessarily a dichotomy in SKS, as you know, Ajaita – and I've had the privilege of working with Ajaita for a period of time in India – as you know, we don't incentivize out staff on loan size or being on collections, meaning portfolio quality. Now, when I tell this to a mainstream banker, there's kind of a gap that, "Why would you do this? Is this the right way to bring up profitability? Push out larger loans than you collect."

But again, I go back to the same thing, that by having that approach, you do create a softer feel. You give a loan that's the right amount for that individual. You make sure that if there's a repayment problem, you're not forcing, but you're trying to understand where that problem is. And, I think that good behavior leads to treating the customer well, which eventually leads to long-term shareholder value. I mean, if you look back at the subprime crisis – you know, giving loans to people for houses that were beyond their means – if they took this business approach that's long-term, you wouldn't have ended up doing that. And, I don't think you could say that if they were socially oriented that they wouldn't have done that, but if you took a long-term, you know, shareholder-value approach, or "treating the customer right" approach, you would actually land up in the same place. So, I think you can incentivize people in a way that creates long-term shareholder value that does release a good social behavior as well.

Q: It is a question for Alex to object-value-oriented microfinance and to go for profit-oriented microfinance. I find that in the case of China as against Bangladesh, I find that China, that beginning in 1977, started to stress the profit motive and has gone a lot faster forward than Bangladesh that stress the social value motive. In fact, China is now 12 times as rich as Bangladesh, starting from about the same starting point as Bangladesh in 1977. More generally I find that – and here I am going to arouse a lot of controversy – I find that in the case of the Catholic Church, that emphasized values for the past 1,500 to 2,000 years, couldn't that make society prosper where as the Protestants came around stressing profits that there was a lot more human progress. So I think that Adam Smith has the process captured more correctly – that the profit motive and the stress on profits leads to a lot more to human innovation, a lot more jobs that uplift the poor, and so, I am for Vikram and I would really like you, and in one word, Vikram, I would really like to help you [laughs] and so Alex, the ball is in your court.

AC: I guess I know where your vote is going to be at the end! You know, I'm no China expert. We have been working, in terms of trying to get microfinance going in China and that's another story for another day. I think that there's been significant poverty reduction in China *and* in Bangladesh. The economists could tell us where it's been more pronounced, where it's been picking up steam, what the environmental costs have been of those, certainly, in both of them, and also India, overall. You have to tip your hat to them.

I think in Bangladesh, [when] you compare to India and China, you have to realize that governance has, overall, been much poorer in Bangladesh. That's put a, a kind of brake on growth and poverty reduction. And this is why the new study seems to indicate that a large percentage of the poverty reduction [in Bangladesh] has been due to microfinance. Also, Bangladesh in the ’70s had just emerged from colonialism from the British and also from the Pakistanis and was a broken-down country. And so, it was starting from extremely low base and, again, I think you have to be wary of comparisons.

But again, I was back in Bangladesh in this past July and I was there with the actress Yeardley Smith from The Simpsons. And some of you may know that there was a Simpsons episode on microfinance a few weeks ago, which was really fun. [Back in July] I just was walking around the countryside and in Dhaka and I just said, “My God, how different this country is than it was when I landed there in December of 1988, in so many ways.” And again, I think these highly ethical, highly entrepreneurial microfinance leaders there, which used development subsidies at one stage and now are using very little, in the case of Grameen, no public subsidy or private subsidy. And how they – despite poor governance and despite having [to work in] a wrecked country after the liberation war, have made so much progress. So, I take nothing away from the Chinese or anyone else. But as the country I lost my heart to, that I’m really not objective about it in any way, it was great to see the progress that has been made there.

Closing remarks

VA: I’m going to start with the interest-rate question and, since this is sort of a mixed audience, not necessarily a microfinance-specialist audience, you know, Alex mentioned the fact that Grameen Bank charges 20% and to a normal layperson, that seems quite high, but in microfinance, because of the high cost of delivery – going out to remote villages, and giving very tiny loans – typically this is quite reasonable in a microfinance context to charge 20%. And in fact, if you compare it to a regular bank, it might have a lower interest, if you look at it from a full transaction cost to a perspective borrower, number of trips to the bank, lost wages because of bus fare, and so on, 20%, you know, becomes quite reasonable to them.

I mention that because what I think that happens in microfinance is, we think there is this sort of dichotomy between on the one hand, high profits and high interest rates, and on the other hand, low profits and low interest rates. So, the classic dichotomy here is, Compartamos in Mexico charging 85% interest, very high return on equity, versus Grameen Bank charging within the microfinance context, arguably the lowest interest, around 20%, and getting low profits or at least, plowing those profits back to its customers.

I think there’s a middle path. It doesn’t have to be high rates and high profits, low rates and low profits, I think there is a middle path, and that middle path is not simply moderate rates and moderate profit – that would be too easy. I think the middle path is actually a way to get low rates and simultaneously get high profits. So, if you look at SKS, you put Compartamos on the one side at 85% and you put Grameen on the other side at 20% – SKS, today, our average lending rate is 27% and we’ve just actually reduced it to 24%.

Now, if you keep in mind that we don’t have savings like Grameen, so our cost of funds, because we are borrowing from banks, is about 6% higher, we’re actually, from a cost-plus basis, lower today, in terms of rates than what Grameen Bank is. Yet, we have very high profits. Now, the point is not to compare with Grameen, but to say that, this dichotomy between high rates, high profits and low rates, low profits, is a false one. You can actually do both. You can do a very high profits and very low rates. If we had the same cost basis for cost of funds as Grameen, we would be down as low as 18%, and I think, that's the new model of microfinance – to get out of the straight jacket and think of a brand-new way of doing this.

In everything we do at SKS, what's foremost in our mind is the person who hasn't yet received a loan. I'm glad we have this classic phrase: "Think of the poorest person you've seen and ask if your next action will help that individual." You can reframe that and think of the poorest person who you have yet to see, you have yet to reach, and ask if that action reaches them. That's what's always in our mind at SKS. It's the woman who says, "Am I not poor too? Do I not deserve a chance?" And keeping that in mind, is why we say profitability, more capital, allows us to reach the one who doesn't otherwise have access to a loan.

AC: Thank you, and I appreciate the questions – they were thoughtful, some provocative, and I was hoping they would be. Let me just address a couple of issues that came up during the debate and then I want to make some closing remarks. Vikram's point about long-term versus short-term profit maximization is a right one. And I think if you look at the long-term lens, that you'll likely do better by the poor, especially the poorest, than if you look through a short-term lens. I hope his shareholders agree with that. And again, unlike Grameen, where 95% of the shareholders are the poor themselves, I'm not sure that will be the case. That may be the case today, but it might not be the case tomorrow. But his idea is right, but he's given up some of the control about that in the future through the course that he has taken.

Vikram said that I created a dichotomy social versus commercial. I reject that dichotomy. I think a better way to think about it [is that we] are talking about a single bottom line or a double bottom line in how we're evaluating ourselves, characterizing organizations. Double bottom line is you're looking for financial profit *and* social profit – social profit through rigorous quantitative measures of whether you are actually moving the dial on poverty. Or, another way to look at it is, profit-maximizing with the hope that that is working for the poor. Or, social purpose-driven with a commercial orientation, but where the commercial orientation is a means, not an end, not an end in itself.

So, to wrap up, if you – just a slight plug – if you like what I've said, or perhaps, if you dislike what I've said, you can delve more into it. We have some free literature and also my book, *Small Loans, Big Dreams,* which looks a lot like this and you can help make sure that the Asia Society and I don't have to bring these back tonight if you all take them from us.

I want to tip my hat to Vikram for his performance tonight and really, for his performance over the last years. He's gone through some very tough situations and has come out in a very strong position. He's avoided some of the issues that I've raised tonight but perhaps he doesn't think they are important or he's thinking about his response and will come back later or maybe it was the structure of the debate. But I have to say he's an incredibly accomplished person in his field, someone I have learned a lot from.

Also I'm glad, as I said earlier, that I don't aspire to own 51% of his organization or any organization, because frankly, I could be wrong in my views, and I'm a long way from the action. Vikram is much closer to the action than I am, so on some fundamental level – and he is an Indian national in that country – so he should have the final say. And in fact, the closer to the action the decision makers are, the better. That's why I love the Grameen model, where the owners and the majority of the board members are the poor themselves, who are even closer and feel the pain of poverty even more than Vikram does. And they have the most at stake.

Vikram was quoted a couple of years ago – and I kidded him about this somewhere in Bangalore – he quoted Gordon Gecko, saying that "Greed is good." This was his statement to be provocative in microfinance. I think greed can be dangerous, especially in the socio-political context in which microfinance takes place. You can challenge me, "What do you mean by a social-purpose-driven MFI, where greed is kind of on the margins, in the periphery?" Well, I have outlined what that could look like, a certification of a true social-purpose-driven MFI, in an article I wrote in the *Stanford Social Innovation Review*, which you can read online. But now there's a task force, a group of people microfinance coming together to actually work on this. They will announce at a meeting, a major microfinance meeting next November in Spain, what those certifications standards are. So, stay tuned for that.

Lastly, Grameen [Bank] has established a five-star system for recognizing loan-officer performance – it came up before, so I want to mention it. Three of them are financial, based on financial indicators: profitability of the branch, loan recovery, and also the savings mobilization. We strongly believe that these are important indicators. You should measure them down to that level.

Secondly though, it does not stop there – and I think some MFIs are stopping there, and hoping that if they achieve there, good things will happen. Every loan officer in Grameen Bank is also measured on what percentage of the borrowers are coming out of poverty, based on their version of the Progress out of Poverty Index. They call it the 10 Indicators of Poverty. And lastly, what percentage of the school age children of clients are in school? And, that's how you get star four and star five.

And interestingly, the incentive system around that is totally nonfinancial. If you get all five stars, you get no additional – because of that alone, you get no additional salary. It's only a personal recognition. And yet, people work very hard to get those stars. Not because they're going to earn more money, not because they're going to profit more, but because they're going to feel better about themselves and the contribution they're making to their country.