

# Micro-Enterprise Case: Grameen Phone

Guest Speaker: Director Iqbal Quadir, Legatum Center

Class Outline for November 2, 2009:

- Announcements
- Presentation by Iqbal Quadir

## Announcements:

Project proposals are due to trip leaders today. Quiz 2, which has been posted online, will be due November 9. *Drowned Out*, a documentary on the Narmada Dam in India, will be playing tonight at 7:15pm in Room 6-120.

## Presentation by Iqbal Quadir:

[Please Note: The opinions expressed here are the views of the guest speaker and do not necessarily reflect the views and opinions of D-Lab.]

Iqbal Quadir is the founder and director of the Legatum Center for Development and Entrepreneurship at MIT, which promotes bottom-up entrepreneurship in developing countries. He is often credited as having been the earliest observer of the potential for mobile phones to transform low-income countries. Iqbal spent most of the 1990s founding and building GrameenPhone Ltd., which has now become Bangladesh's largest telephone company, with net income of \$250 million in 2006. To date, it has built the largest cellular network in the country with a subscriber base of nearly 20 million, providing telephone access to more than 100 million people, while helping to create 250,000 micro-entrepreneurs in these villages. Previously, Iqbal taught at the John F. Kennedy School of Government at Harvard University, focusing on the impact of technologies in the politics and economics of developing countries.

For this class, Iqbal will first give a brief introduction to the programs he leads and then open up the session for discussion through a question and answer format. Grameen Phone is a cell phone company in Bangladesh with 20 million subscribers that provides coverage across the country and offers people income-generating possibilities by providing cell phone access to their neighbors. It has since grown to over 100 million people and has been replicated in several countries. The Legatum Center is supported by a billionaire from New Zealand that gave \$50 million to MIT, funding programs such as seed grants and fellowships to support graduate students in creating enterprises in developing countries. These opportunities may be opened up to undergraduate students in future years. Derek, the class T.A., was part of the first class of Legatum Fellows.

## Q: How do you transfer enterprises from MIT students to other countries?

A: We do not transfer them. Students are supported to create enterprises in other countries. There is no need for transferring. It happens in those countries – the students learn there and create their enterprises there. MIT admits students from all over the world, in hopes that they

will go create enterprises in their home country. Additionally, the “average American” is very diverse and could also be from anywhere, and could go anywhere to create an enterprise.

**Q: How does long-term sustainability work?**

**A:** We promote for-profit enterprises. If something makes a profit, it is sustainable. In fact, it can grow with the profit. If you cannot make something sustainable, that means you have not thought hard enough. We should be more creative here.

If you are someone from Kenya and you create an enterprise, you have created something useful to the population as well as doing economically well for yourself. You have also set an example because all of this can be an incentive for others to do the same. Bill Gates must have inspired thousands of young people. Similarly, if you can inspire others, that is a big impact.

The Legatum Center does not push people to have an enterprise as soon as you graduate MIT. We are somewhat realistic. This year there are 16 fellows, but there were only 3 fellows in the inaugural class. One of those fellows has since created an enterprise to import gluten-free food from Latin America and sell it in Europe and the US. Another is trying to create recycled electronic products in Pakistan, such as recycled cell phones. Derek is trying to create a company that processes leaves of *Moringa oleifera*, a natural multivitamin plant that has major nutritional benefits if introduced into children’s food. All of these initiatives can also be profitable.

If you look at the history of progress, it is the history of the distribution of power. Corruption comes from concentration of power. Innovations help to disperse power. In his classes at Harvard, Iqbal tries to give historical examples of why it is better to innovate to support democratic processes and economic growth. If you look at the history of property rights and checks and balances in the British Parliament, it was the shortage of money that led to the ruling party to make compromises and disperse power, giving rise to political and economic progress. In developed countries, we tend to support entrepreneurs, bringing innovations and profits to help our country become prosperous and democratic. In contrast, we have tried and failed to support poorer countries by mostly providing government aid and charity. It is a myth that poor people do not also need pocketbooks, finances and ways to save.

**Q: What is the government’s main role in international development?**

**A:** My view is that government’s main role is governing and regulations. When the government tries to get into other businesses and industries, it can distract itself. I am for government but I think the question is not what is the role of government, but how to create good governments. When the government is good, it will do good things. Likewise, when a government is corrupt, it will do bad things and the whole political process becomes corrupted. We need forces that counter the garnering of too much power. You need newspapers and other media so people have the courage to speak out if the government does something wrong. I am not actually for the private sector, but you need the private sector. You cannot have one private company and one government making all the decisions. There is a good book about this by Professor Yasheng Huang from Sloan. The topic is also covered in the book by Jeffrey Sachs, who is a proponent of government led development.

**Q: What are the checks for private enterprise dispersal? For example, what if Derek had tried to patent his Moringa leaves and sell it at a high profit that excludes the people who need it most?**

**A:** There are too many other problems on the ground to worry about before this. People do not even have basic, fundamental rights. They might not have property rights, so how can they worry about intellectual rights right now? Even some digital technologies that emerged from Western countries, such as Microsoft and Hollywood, have difficulties protecting patents and copyrights in developing countries. Before other important needs, we have become preoccupied with IP rights. It used to be that people in England invented things and Americans stole them for industry. Even if there is government protection of IP, people may not feel that it is important and may ignore them. Bottom-up development is necessary so people feel the need to protect what they have invented. Right now, people only feel that IP is only one-way. This is why software is pirated. People tend to charge an exorbitant price. Iqbal advises charging more from early adopters and less from mature/slow adopters.

**Q: If you are creating your own enterprise, when do you consider going to a larger scale?**

**A:** At MIT, we are attracted to thinking big things because we pay a lot to be here and there is an opportunity cost. If you want to develop a small enterprise, however, no one can stop you. You can also create a large organization that supports a lot of small enterprises. For example, Grameen Phone supports the micro enterprises of local women. If you have a standardized product that thousands of villages can use, you can think about creating a larger organization to support spreading this to other areas. You can start by developing a microenterprise. Depending on your contentment level, it is better to start small unless you will only be content doing something big. It is easier to manage and learn from something smaller.

**Q: An issue in developing countries is scale of capital. What do you recommend going through in order to deal with this limitation: a social enterprise, government, or NGO?**

**A:** I am not so worried about scale. The important thing is if you create something of value. If you do something amazing and start with 2 cows, what is preventing you from taking that to other households and villages? If Bangladeshi citizens held government bonds instead of receiving money from foreign entities, thousands would demand that the government become accountable. Bangladesh is one of the poorest countries but is growing at 6% this year. If the aid money is only dispersed in small amounts, it may not make a huge impact, since foreign aid is often only 1% or less. If it is given in a chunk to the government, however, it could change their priorities.

**Q: You are saying development should be handled by private enterprise and NGOs as necessary. The government is responsible for law and order. How can they maintain law and order?**

**A:** The government needs enough tax funds to be able to maintain law and order. It is easy to identify which countries desperately need money to support law and order, and which countries

are siphoning off money to support businesses for their own gain. In the latter case, refuse the government aid and make them shut down the businesses.

**Q: Why do you think democracy is not functioning well in certain countries?**

**A:** Even if we establish the right to vote, who protects the right? Government should protect us from enemies, criminals, diseases and other threats. Its job is supposed to be protection. In many countries, governments are not in the business of protection; they are running businesses instead. Citizens in this case have too little power to demand government protection. The rights do not exist because people are not demanding them and there is no one to protect them. Take Bangladesh for example, where there is a shortage of schools, hospitals, roads and other infrastructure. The Bangladeshi government still went into the cell phone business when there were already 6 existing cell phones companies because it is an attractive business. If you look at the ground in real situations, government priorities are not always what they are supposed to be. If Bangladesh found mineral oil wealth, they would be finished. The government would no longer rely on taxes and selling bonds from its citizens, and there would no longer be any need for them to be accountable.

The interesting thing is that capitalism gives rise to democracy. Individual grassroots initiatives can be powerful and working through NGOs can be more effective than going through government. This is how the Grameen Phone started. When the China government intervened, it actually made certain things more difficult. It is all a cycle. Iqbal believes this is a critical point.

We have to support liberating ideas. There are two ways to support development: 1) we can switch out of aid and 2) we can support entrepreneurs. Stopping aid is like getting rid of the headwind, and supporting entrepreneurs is like growing the tailwind.

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