

Secretariat of the Minister of International Development

Arkivkode/ File no:	Vår ref./ Our ref.:
	1001772-2
Deres/ Dykkar ref./ Your ref.:	Vår saksbeh./ Enquiries:
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Dato/ Date:	
06.12.2010	

Review commissioned by the Norwegian Ministry of Foreign Affairs of matters relating to Grameen Bank

Commission:

We refer to the telephone conversation and written enquiry of 1 December from the Ministry concerning the commission of a comprehensive presentation/account of all issues relating to Norad's handling of the support given to Grameen Bank.

Sources:

- Norad has reviewed the documentation relating to the matter which was found in both Norad's and the embassy's archives.
- Einar Landmark, First Secretary, Embassy of Norway, Dhaka, Bangladesh, 1996-1999.

Facts:

- **Development assistance funding provided for revolving funds in Grameen Bank in the period 1985-1996 by Norad and other donors was transferred from Grameen Bank to Grameen Kalyan in 1996.**
- **Grameen Kalyan then lent these funds back to Grameen Bank.**
- **The transfer between Grameen Bank and Grameen Kalyan was discovered by the Embassy in the course of a routine review of Grameen Bank's annual report for 1996.**
- **Norway regarded the transaction as a breach of the agreements between Norway and Bangladesh.**
- **The formal breach of the agreement related to Phase IV, which concerned NOK 106 million, since previously concluded agreements had ended.**
- **All of the funding for revolving funds under Phase IV, totalling NOK 106 million, was returned to Grameen Bank following negotiations between Grameen Bank and Norway. Furthermore, NOK 64 million relating to Phase III was also returned.**

Background

Mohammad Yunus began providing small loans to poor women in Bangladesh as a project in 1976. The project was continued through Grameen Bank, which he established in 1984 under a government charter. All borrowers became owners of Grameen Bank through shares which they were required to purchase in Grameen Bank when they registered as members. The authorities originally held the majority of the shares in Grameen Bank, and appointed the chairman of the Board of Directors and the general manager. As the number of members grew, the authorities' shareholding was diluted.

In the period from 1986 to 1997, Norway provided support for Grameen Bank which was regulated by eight agreements. According to the Embassy, a total of NOK 396.45 million was granted under these agreements, and a total of NOK 392.693 million was paid out. An additional NOK 1.343 million was spent on the final evaluation, the cost of which was covered by the last ordinary allocation. As provided in the agreements, the Norwegian Embassy in Dhaka received periodic progress reports and auditor-certified financial statements showing Grameen Bank's use of the funding and attainment of objectives, total revenues and expenses, and documentary proof of compliance with other conditions set for the support. The Embassy also received Grameen Bank's own annual reports and audited financial statements.

In the early years, the funding provided to Grameen Bank by donors was largely applied, in addition to being used for revolving funds, to build up Grameen Bank's infrastructure and to finance institution-building projects (Phases II and III). Phase IV mainly concerned funding for revolving funds. Norad also granted funding for emergency relief and rehabilitation efforts following natural disasters. The relief funding was regulated by four agreements concluded in the period 1988 to 1992, which related to emergency relief for the victims of two natural disasters, whose homes and other possessions had been destroyed or damaged. (See enclosure for a more detailed list of the various agreements between Norway and Grameen Bank.)

In December 1997, the Embassy, while reviewing Grameen Bank's *Annual Report '96*, discovered a footnote in the financial statements that disclosed significant accounting changes in the composition of Grameen Bank's balance sheet, effective from 31 December 1996. According to a memorandum from the Embassy dated 10 February 1998, the altered entries concerned development assistance funds.

According to its memorandum of 10 February 1998, the Embassy contacted Grameen Bank, requested further explanation, and was sent the agreement between Grameen Bank and Grameen Kalyan and the articles of association of Grameen Kalyan. At that time, the Embassy had no knowledge of the company Grameen Kalyan.

It became apparent that Grameen Bank had transferred all revolving loan funds that had been provided by donors in the form of development assistance grants, in total around NOK 540 million, to the company Grameen Kalyan. Furthermore, an internally generated fund (the Social Advancement Fund) amounting to about NOK 68.5 million had been transferred. The total amount transferred was NOK 608.5 million. A corresponding amount was recorded as a debt owed by Grameen Bank to Grameen Kalyan. Thus ownership of the funds had been transferred to Grameen Kalyan, which then lent the funds back to Grameen Bank. Norway's share consisted of funding relating to revolving funds that formed part of Grameen Bank's Phases III and IV.

A specification, taken from the memorandum of 10 February 1998, detailing the distribution of funds transferred from Grameen Bank to Grameen Kalyan (in local currency, Bangladeshi Taka):

General & collective loans	1,244,811,572.85
Housing loans (members)	1,814,903,911.70
Housing loans (employees)	87,340,075.68
Bicycle loans	24,793,912.00
Social Advancement Fund (SAF)	442,512,624.00
Total	3,924,362,096.43

This was equivalent to a total of NOK 608.5 million, based on the exchange rate at the time.

Agreement between Grameen Bank and Grameen Kalyan

Grameen Kalyan, which means “Grameen Wellbeing”, was founded in 1996. Nine current and former top management executives of Grameen Bank were behind the establishment of Grameen Kalyan. The company was organised as a non-profit undertaking with limited guarantee liability for the participants. Profits were retained in the company, and in the event of the company’s dissolution, the funds were to be transferred to a company with similar aims.

According to the Embassy’s memorandum dated 10 February 1998, under its articles of association Grameen Kalyan was permitted to use its funds for a wide range of purposes:

- a) Provide loans and grants to Grameen Bank’s employees and members and their families.
- b) Grant “matching funds” to companies owned and run by Grameen Bank employees.
- c) Provide loans to other companies connected with Grameen Bank.
- d) Offer medicines and health and sanitation services for members and employees of Grameen Bank.
- e) Promote and establish partnership companies, joint ventures, public limited companies and insurance companies.
- f) Organise educational and training programmes for members and employees of Grameen Bank.
- g) Promote new and adapted technology and innovative ideas for developing small businesses.
- h) Carry out research and initiate experiments to find ways of bringing about socio-economic changes that benefit members of Grameen Bank.
- i) Support, hold and arrange training programmes, seminars, workshops and meetings between NGOs and other organisations, local government bodies and individuals in order to achieve Grameen Kalyan’s goals.
- j) Receive gifts, grants, development assistance and donations of all kinds in order to arrange, establish and maintain capital and assets.
- k) Obtain funds from various local and international donor organisations and the government in order to implement emergency relief and rehabilitation measures after natural disasters, or other types of disaster.
- l) Mitigate the consequences of all kinds of disaster that affect the life and property of Grameen Bank members and employees.

- m) Purchase, lease or in another manner secure properties or rights that are necessary in order to build or maintain houses for Grameen Bank members and employees.
- n) Become a member of local or international organisations in order to promote the goals of Grameen Kalyan.
- o) Open bank accounts and take up loans.
- p) Invest capital in securities, receivables, shares, etc.
- q) Promote, organise and establish branch offices of Grameen Kalyan.
- r) Perform other functions that will serve to advance the development of the country in general and improve socio-economic conditions for the poor in particular.

The articles of association stipulate that no part of the income or assets of Grameen Kalyan may be paid out to the members of Grameen Kalyan in any form. In the event of the dissolution of the company, the assets are to be transferred to a company with a similar objects clause. The agreement between Grameen Kalyan and Grameen Bank further stated that Grameen Kalyan could both require Grameen Bank to repay the loan in instalments and require the payment of interest on loans, except for housing loans.

When this matter was discovered, Phase III of the project had been completed and Phase IV was still in progress. It was these two phases that were the subject of discussions between Norway and Grameen Bank. According to the memorandum dated 10 February 1998, it was the Embassy's assessment that the transaction was contrary to the agreement relating to the support that was being provided to Grameen Bank's Phase IV. This funding, provided by Norad, was to go to a revolving housing-loan fund administered by Grameen Bank, from which Grameen Bank members were to be granted loans. Grameen Kalyan had different, far broader, aims, and moreover was not licensed to engage in lending activities. In a letter from Grameen Bank dated 8 January 1998, it was pointed out that the funds that were lent back to Grameen Bank were to be used for the same purposes as the original intention set out in the agreement. However, Grameen Kalyan could require that the loan be repaid. As the Embassy's memorandum of 10 February 1998 shows, the Embassy's opinion was that funding previously given for revolving loan funds, i.e. Phase III, should also remain under the control of Grameen Bank. This funding not only constituted an asset for the owners of Grameen Bank (its members), but also assured that they would have access to loans in future.

The objects clause of Grameen Kalyan made it possible for the company to engage in a far broader range of activities. Grameen Kalyan was permitted to generate revenue through the interest payments that Grameen Bank was to make to Grameen Kalyan in addition to its loan repayments.

Matters linked to the transfer from Grameen Bank to Grameen Kalyan

The documentation available in the matter provides several explanations for why Grameen Bank chose to transfer the grant funds to Grameen Kalyan.

According to a memorandum from the Embassy dated 10 February 1998, Mohammad Yunus stated at a meeting on 3 December 1997 that, "the primary purpose of the

transaction was to reduce tax liability, and to secure the funds for the members of Grameen Bank”.

At this time, Grameen Bank was exempt from tax, and the Embassy concluded that the explanation was rather unconvincing and failed to provide much clarification. In a letter dated 8 January 1998, Yunus explained that the internal set-aside of 2% of the interest payments on issued loans (the SAF fund) could be taxed at a rate of 40% as, according to Grameen Bank, Grameen Bank’s tax exemption was likely to end during that year. In its statement to the *Brennpunkt* programme, Grameen Bank has again pointed to the tax issue as an explanation for the transfer of the funds to Grameen Kalyan. In its memorandum of 10 February 1998, the Embassy pointed out that it was unlikely that, at the time that the support was granted, the Norwegian authorities would have accepted organisational structures intended to prevent the ordinary taxation of potential future financial gains.

In addition, subsequent written communications pointed out that Grameen Kalyan was supposed to administer Grameen Bank’s loan funds in a manner that ensured that Grameen Bank was under pressure to demand repayment of the loans from the members.

In its memorandum of 10 February 1998, the Embassy concluded that, “the explanations of Grameen Bank’s management regarding the purpose of concluding the agreement with Grameen Kalyan leave uncertainty and are not convincing.”

The Embassy’s assessment

The Embassy submitted the matter to Norad by means of a memorandum dated 10 February 1998. The legal department issued an opinion, and it was agreed that the Embassy should demand that ownership of the Norwegian development assistance funds that had been transferred from Grameen Bank to Grameen Kalyan, and then lent by Grameen Kalyan to Grameen Bank, should be transferred back to Grameen Bank.

The assistance given to Grameen Bank formed part of the state-to-state cooperation between Bangladesh and Norway. Accordingly, the Embassy discussed the matter with the Bangladeshi authorities, represented by the Economic Relations Division of the Ministry of Finance. Meeting minutes dated 16 March 1998 record that the authorities agreed with the Norwegian view that ownership of the funds should be transferred back to Grameen Bank. They took up the matter with Grameen Bank themselves, but then informed the Embassy that it was fine for Grameen Bank and Norway to deal with the matter directly.

The Embassy consulted local legal expertise. This review showed that the Embassy had a weak legal basis for demanding the return of Phase III funds, as the agreement had ended. Norad’s legal department reached the same conclusion in a memorandum dated 11 May 1998.

Grameen Bank and Grameen Kalyan proposed to the Embassy that revolving funds from Phase IV, relating to 1993 and 1994 and totalling NOK 106 million, be returned. The Embassy was authorised by Norad to negotiate on this basis, albeit with the aim of securing a full return that also covered Phase III. Following negotiations between

Grameen Bank, Grameen Kalyan and the Embassy, the Embassy secured agreement to a full return of the revolving loan funds, including from Phase III. This involved the return of NOK 170 million in total. Summary of what was returned (see enclosure for details of the various agreements and an Excel summary):

NOK 76 million for housing loans under agreement of 30 November 1994 (Phase IV)
NOK 30 million for housing loans under agreement of 14 December 1993 (Phase IV)
NOK 40 million for housing loans under agreement of 15 January 1990 (Phase III)
NOK 24 million for general and joint loans under agreement of 15 January 1990 (Phase III)
= NOK 170 million total funds to be transferred back to Grameen Bank.

This meant that Norad and the Embassy's demands had been met. The Embassy's use of the term "compromise" in its letter of 26 May 1998 was linked to Grameen Bank's invitation to negotiate a compromise. Following the negotiations, the Embassy and Norad had secured fulfilment of all of their demands. Phase IV of the disbursement of funding to Grameen Bank was concluded in 1997. An evaluation of the project was undertaken in 1998-1999. The Embassy received reports from Grameen Bank until 2001, and formally ended the funding agreement in 2003.

According to the Embassy, the said matter of the transfers between Grameen Bank and Grameen Kalyan was concluded in a satisfactory manner, as expressed by the Embassy in a letter to Grameen Bank dated 26 May 1998:

"The Embassy highly appreciates your cooperation in solving this issue, and is pleased to have arrived at a solution which is satisfactory for Grameen Bank as well as the Embassy. The Embassy looks forward to continued good cooperation in future."

Grameen Bank's comment as at 6 December 2010

Since NRK's *Brennpunkt* reported on this matter on 30 November 2010, Grameen Bank has made a public statement. This took place on 3 December 2010, via the Yunus Centre, an internet website providing information about Mohammad Yunus. The statement, under the heading "Grameen Bank's Response to Recent Press Reports", includes the following sentence:

"Afterwards not only Norad's money, but the 100% of all donor's money to the extent of Taka 3,474 million 501 thousand was "transferred back", from Grameen Kalyan to Grameen Bank,..."

Other matters

With regard to the claim in *Brennpunkt* concerning the spending of NOK 50 million of Norwegian development assistance funding on Grameen Phone, the following has been documented:

According to the Embassy's memorandum dated 10 February 1998, the loan to Grameen Telecom involved funds from the Social Advancement Fund (SAF), a fund created internally within Grameen Bank by setting aside 2% of the interest payments received on borrowers' revenue-generating loans. Norwegian development assistance funds allocated under the eight agreements mentioned above were not used to finance Grameen Telecom.



Three enclosures:

Enclosure 1: Excel summary of agreements

Enclosure 2: Summary of agreements

Enclosure 3: Conclusion from Econ report 1998/1999