NEWS

Norad report in short

the handling of Norad's support to Grameen Bank.

Norad has reviewed the documentation found

in both Norad's archives and in the embassy's archives relating to the case.

Einar Landmark, first secretary at the Norwegian Embassy in Dhaka, Bangladesh, 1996-1999.

Assistance given by Norad and other donors to Grameen Bank's revolving funds in the period 1985-1996 was transferred from Grameen Bank to Grameen Kalyan in 1996.

Grameen Kalyan then loaned these funds back to Grameen Bank.

The transfer between Grameen Bank and Grameen Kalyan was discovered by the Embassy during a routine review of Grameen Bank's annual report for 1996.

The transaction was from the Norwegian side seen as a violation of the agreements between Norway and Bangladesh.

The formal breach was about Phase IV, an amount of 106 million Norwegian Crowns (NOK), as previous agreements had already concluded.

Funding for revolving funds under Phase IV, a total of 106 million NOK, was returned in full to Grameen Bank after negotiations between Grameen Bank and Norway. In addition, 64 million NOK related to Phase III were returned.

Background Norway supported Grameen Bank in the period from 1986 to 1997, regulated by 8 agreements. According to the Embassy, under these agreements a total of 396.45 million NOK were appropriated and a total of 392.693 million NOK were paid out. In addition, 1.343 million NOK, covered by the last annual appropriation, were used for a final evaluation.

In the first years, in addition to financing the revolving fund, donor support to Grameen Bank largely went to build up Grameen Bank's infrastructure and to finance institution-building (Phase II and III). Phase IV was mainly concerned with funding for the revolving funds. In addition, Norad provided support to relief and rehabilitation efforts after natural disasters. This support to the victims of two natural disasters, who had their homes and other assets lost or destroyed, was given through 4 contracts from 1988 to 1992.

In December of 1997, while reviewing Grameen Bank's "Annual Report '96", the Embassy discovered in a footnote to the financial statements major accounting changes in the composition of Grameen Bank's balance sheet effective as of December 31,1996. According to a note from the Embassy dated February 10, 1998, the changed postings concerned aid funds.

According to a note dated February 10,1998, the Embassy contacted Grameen Bank, requesting a

more detailed explanation. In response, they were sent a copy of the agreement between Grameen Bank and Grameen Kalyan, as well as the statutes of Grameen Kalyan. The embassy at that time had no knowledge of the company Grameen Kalyan.

It turned out that Grameen Bank had transferred all the revolving loan funds that had been provided as grants from donors, totaling about 540 million NOK, to the company Grameen Kalyan. In addition, an internally generated fund (Social Advancement Fund) of about 68.5 million NOK had been transferred. Combined, the transfer consisted of 608.5 million NOK. An equivalent amount was recorded as debt from Grameen Bank to Grameen Kalyan. Ownership of the assets was thus transferred to Grameen Kalyan, to then be loaned back to Grameen Bank. The Norwegian share concerned funds related to the revolving fund of Grameen Bank Phase III and IV.

Specifications, retrieved from a note dated February 10, 1998 on the distribution of the funds that had been transferred from the Grameen Bank to Grameen Kalyan (in local currency, Bangladeshi Taka):

General & collective loans 1,244,811,572.85 1,814,903,911.70 Housing loans (members) Housing loans (employees 87,340,075.68 24,793,912.00 Bicycle loans 442,512,624.00 Social Advancement Fund (SAF) 3,914,362,096.43

This corresponded to a total of NOK 608.5 million according to the exchange rate at the time. The agreement between Grameen Bank and Grameen Kalyan

Grameen Kalyan means "Grameen Wellbeing" and was founded in 1996. The company was organized as a limited warranty non-profit company for the participants. The profit was to remain in the company, and upon dissolution of the company assets were to be transferred to a company with similar purposes.

According to the Embassy's note dated February 10, 1998, Grameen Kalyan's statutes would allow them to use their funds for a wide variety of purposes:

a) Provide loans and grants to Grameen Bank's employees and members with families.

b) Grant matching funds to companies owned and operated by Grameen Bank's employees.

c) Provide loans to other companies associated with Grameen Bank.

d) Offer medical, health and sanitation services for Grameen Bank members and employees.

 e) Promote and establish partnership companies, joint ventures, public limited companies and insurance companies.

Organize education and training programs for members and employees of Grameen Bank.

g) Promote new and adapted technologies and innovative ideas for development of small businesses.

h) Conduct research and carry out experiments to find ways to bring about socio-economic changes for members of Grameen Bank.

Support, conduct and arrange training programs, seminars, workshops and meetings between NGOs and other local agencies and individuals to achieve Grameen Kalyan's goals. Receive gifts, grants, aid, donations of all kinds

to organize, establish and maintain capital and assets. Obtain funds from various local and interna-

tional donor organizations and from the government to carry out relief and rehabilitation after natural disasters or other catastrophes. Remedy all sorts of disasters that affect the life

and property of Grameen Bank members and m) Buy, rent or otherwise secure the necessary

property or rights to build or maintain housing for Grameen Bank members and staff. n) Become a member of local or international

organizations to promote Grameen Kalyan's objectives.

 Open bank accounts and take loans. p) Invest capital in securities, receivables, shares,

q) Promote, organize and establish branch offices

of Grameen Kalyan. r) Perform other functions that will work to

develop the country in general and improve the socio-economic conditions for the poor in particular.

It was stated in the statutes that no part of Grameen Kalyan's income and assets is to be paid to members of Grameen Kalyan in any form. In the event of the dissolution of the company, assets were to be transferred to a company with a similar mission statement. The agreement between Grameen Kalyan and Grameen Bank further made clear that Grameen Kalyan could both implement the requirement to pay installments on the loan from Grameen Bank, and charge interest on loans except on mortgages.

When the relationship was revealed, the project's Phase III had already been completed and Phase IV was underway. These two phases were the subject of discussion between Norway and Grameen Bank. According to a note dated February 10, 1998, the Embassy's assessment was that the transaction breached the agreement for the ongoing support during Grameen Bank Phase IV. These funds from Norad were meant to go into a revolving fund for housing loans at Grameen Bank, from which Grameen Bank members would get loans. Grameen Kalyan had other and far wider purposes and lacked a license to engage in lending activities. A letter from Grameen Bank, dated January 8, 1998, points out that money that was loaned back to the Grameen Bank was used for the same purpose as was the original intent of the agreement. However, Grameen Kalyan could require repayment of the loan. The Embassy's February 10, 1998 response makes clear that they think also previous support for revolving loan funds, i.e. Phase III, should continue to be under

the control of Grameen Bank. These funds both represented values for Grameen Bank's owners (members), and secured their future access to loan funds.

Grameen Kalyan's mission statement allowed the company to engage in a much broader area. Grameen Kalyan had the opportunity to gain income from interest which would be paid back from Grameen Bank to Grameen Kalyan in addition to the loan installments.

Matters relating to the transfer from Grameen Bank to Grameen Kalyan

The documentation of the case provides several explanations as to why Grameen Bank decided to transfer gift funds to Grameen Kalyan.

According to the Embassy in a note dated February 10, 1998, Mohammad Yunus said at a December 3, 1997 meeting that "the main purpose of the transaction was to reduce tax obligations, and to secure funds for the members of Grameen Bank."

At that time, Grameen Bank had tax exempt status and the Embassy found this explanation and clarification unconvincing. In a letter dated January 8, 1998, Yunus explains that the internal allocation of 2% of the interest payments on loans (SAF fund) could possibly be taxed at 40% as Grameen Bank's tax exemption would according to Grameen Bank most likely expire the same year. In its statement to Brennpunkt (a Norwegian documentary program), Grameen Bank again referred to the tax issue as the explanation for the transfer of funds to Grameen Kalyan. The Embassy points out in its memo of February 10, 1998 that at the time the support was granted, the Norwegian side would most probably not have accepted organizational constructs to prevent the ordinary taxation of possible future economic gains.

In a subsequent written communication it was also noted that Grameen Kalyan was going to administer the loan funds to Grameen Bank in such a way that Grameen Bank would feel pressure to demand repayment of loans from its members.

The Embassy concluded in its memo of February 10, 1998 that "Explanations from the management of Grameen Bank on what has been the purpose of entering into the agreement with Grameen Kalyan leave uncertainty and are not convincing. **Embassy Evaluation**

The Embassy presented the matter to Norad in a note of February 10, 1998. The Legal Department issued a statement, and it was agreed that the Embassy would require that the ownership of the Norwegian aid funds that had been transferred from Grameen Bank to Grameen Kalyan and then borrowed back from Grameen Kalyan to Grameen Bank, be brought back to Grameen Bank. Assistance to Grameen Bank was provided as a

part of government to government cooperation between Bangladesh and Norway. Therefore, the Embassy discussed the matter with the Bangladeshi authorities in the Ministry of Finance,

Economic Relations Division. Meeting minutes dated March 16, 1998 make it explicit that the government agreed with the Norwegian assessment that ownership of the funds should be returned to Grameen Bank. They took the matter up with Grameen Bank, but then gave notice to the Embassy that it was okay if the matter was handled between Grameen Bank and Norway directly.

The Embassy consulted local legal expertise. This review showed that the Embassy had a weak legal basis for demanding the return of funds from Phase III, as that agreement was concluded. Norad's Legal Department came to the same conclusion in a May 11, 1998 memo.

Grameen Bank and Grameen Kalyan suggested to the Embassy that the revolving funds under Phase IV from 1993 and 1994, a total of NOK 106 million, be returned. The Embassy received authorization from Norad to negotiate on this basis, but with a view to achieving full recovery, even of funds from Phase III. After negotiations between Grameen Bank, Grameen Kalyan and the Embassy, the Embassy managed to gain acceptance also for the full return of the revolving loan funds from Phase III. This involved the return of a total of 170 million NOK.

With this, Norad and the Embassy's requirements were met. When the Embassy in a letter dated May 26, 1998 coined the term "compromise", it was linked to Grameen Bank's invitation to negotiate a compromise. The Embassy and Norad had all their demands met through the negotiations. Payments of support for Grameen Bank during Phase IV were completed in 1997. A project evaluation was conducted in 1998-99. The Embassy received reports from Grameen Bank until 2001 and formally concluded the funding agreement in 2003.

The much discussed case of the transfers between Grameen Bank and Grameen Kalyan was according to the Embassy closed in a satisfactory way, which the Embassy expressed in a letter to Grameen Bank, dated May 26, 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 the future."

Regarding the assertion in Brennpunkt about NOK 50 million of Norwegian aid money spent on Grameen Phone, the following is documented:

According to the Embassy's memo dated February 10, 1998, the loan to Grameen Telecom was in regards to funds from the Social Advancement Fund (SAF), a fund created within the Grameen Bank to set aside 2% of the interest payments from borrowers' income-generating loans. Norwegian aid funds allocated under the above eight agreements were not used to fund Grameen Telecom.

Clean chit to Grameen

FROM PAGE 1

corrupt practices or embezzled funds. The matter was concluded when the agreement concerning reimbursement of the funds was entered into in May 1998 under the government in office at the time," said Erik Solheim.

In an instant reaction, Grameen spokesman Mohammad Shajahan told AFP, "We are very happy that the actual proof (of Grameen's innocence) has come to light and we hope this will end all debate about Grameen.'

The microfinance institution has all along maintained that the transfer of aid to Grameen Kalyan was legitimate and done to minimise tax on the money.

Norad's report shows that Grameen Bank transferred a total of NOK (Norwegian Kroner) 608.5 million to its sister company Grameen Kalyan in 1996. Norway's share in it was approximately NOK 170 million. The Norwegian Embassy in

Dhaka reacted immediately as soon as it came to know about the transfer in 1997. In the embassy's view, the transfer was not done in accordance with the agreement. The matter was raised before Grameen Bank. Following negotiations, it was agreed in May 1998 that NOK 170 million was to be transferred back from Grameen Kalyan to Grameen

The issue came to the fore recently after Norwegian National TV, NRK ran a series of documentaries early this month on micro-credit with

mentions of Grameen's transfer of funds to Grameen Kalyan.

On December 3, Grameen Bank in a statement denied any wrongdoing and said it had transferred \$96 million of aid to Grameen Kalyan and had it back as loan the same day to enhance funds for microborrowers.

Nobel Laureate Prof Muhammad Yunus, founder of the bank, has defended himself saying this had been done to ensure maximum transparency and responsible use of the Bank's revolving fund.

The whole episode took place about one and a half decades ago. And then it was presumably ironed out, as the documentary showed a compromise had been reached concerning transfer of the funds Norway granted to Grameen Bank. Under the agreed compromise, 170 million Norwegian Kroners was transferred back to the Bank.

Some local media and an online news agency picked up the issue. They gave a new twist to the event alleging that Yunus had "siphoned off" the fund. ALLEGATIONS AGAINST

GRAMEEN BANK

The documentary claimed the Norwegian embassy in Dhaka at a meeting with the bank on December 3, 1997 learnt about the May 7, 1997 agreement between the Bank and Grameen Kalyan. The deal was made effective on December 31, 1996 for transfer of funds of Tk3.914 billion.

In a letter to Yunus on December 15, 1997, the embassy said: "In line with the

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agreement, Grameen Bank transferred all funds accumulated up to December 31, 1996 received from donors for revolving funds, to Grameen Kalyan, which on the same date transferred the amount to Grameen Bank as loan.

Of the amount, Tk 1.927 billion was related to the revolving funds for housing loans. Grameen Kalyan is in fact a spin-off created in 1996 by Grameen Bank, which set up an internal fund called Social Advancement Fund (SAF) by imputing interest on all the grant money it received from various donors.

SAF has been converted into a separate company to carry out social advancement activities such as education, health and technology among Grameen borrowers. It has 30 health clinics across the country. Most of these are attached to Grameen Bank branches.

The letter, signed by Ambassador Hans Fredrik Lehne, said: "The agreement concerning these transactions has not made provisions for any interest rates to be charged for this part of the loan, nor any terms of repayment."

The agreement was signed between the governments of Norway and Bangladesh on November 30, 1994 to support Grameen Bank's Phase IV

Annex 1, clause 4 of the agreement said: "The amount of the Grant used for housing loans will be used as a revolving fund.'

The Norwegian embassy was concerned that it had not been informed about the

Dhanmondi Branch)

agreement between the two organisations. It said, "The agreement was contrary to the quoted clause of the agreement between the governments." It observed that the

Grameen Bank accounts as of December 31, 1996 did not reflect any revolving fund for housing loans in operation under the Bank. The embassy said "The ownership of Grameen Kalyan

is of another nature, and Norway has not entered into an agreement with Bangladesh to provide funds to Grameen Kalvan for lending to Grameen

"The agreement has further left uncertainty about future repayment of the loan to Grameen Kalyan, since it is not regulated by the agreement.

"The agreement is also silent about Grameen Bank's use of the loan from Grameen Kalyan.

In the light of it, the embassy considered the agreement between Grameen Bank and Grameen Kalvan "as a change which affects two agreements between the two governments to support Grameen Bank."

It requested Yunus to explain in writing "why Grameen Bank entered into the agreement with Grameen Kalyan, and of the consequences for the owners of Grameen Bank and the beneficiaries of the housing loans." GRAMEEN'S RESPONSE TO

ALLEGATION Immediately after the report,

Grameen in a statement said there was no wrongdoing in the agreement between Grameen Bank and Grameen Kalyan.

The Grameen Bank Board made the decisions with due deliberation, good faith, and good intentions to benefit the poor. The actions taken by the Board were viewed as the best use of the funds at the time and a way to ensure Grameen Bank would remain financially accountable for the money and that the borrowers received the most possible benefit from donors' grants.

For the grant that Grameen Bank received from Norad and other donor agencies under its 3rd extension phase, Grameen Bank and donors agreed that a 2% interest rate would be fixed on the grant and that interest would be used to create a Social Advancement Fund (SAF) for the welfare of Grameen Bank borrowers and employees. "The creation of SAF was our suggestion, donors happily agreed to it."

Grameen Bank believed that if the SAF was kept within Grameen Bank and managed by the Bank then it would not receive the attention it deserves. The core activity of

Grameen Bank, the lending program, would always get precedence. Grameen Bank may not pay sufficient attention to create welfare-based programmes for its members and employees. Moreover, Grameen's tax

exemption period expired on 31st December, 1996. At that time it was uncertain whether the government would extend the tax exemption period after 31st December, 1996. If the government would not extend the period, the contribution to the Social Advancement Fund as expenses would not be considered as an expenditure of Grameen Bank. As a result, 40% tax would have been imposed on contribution to Social Advancement Fund. It might compel Grameen Bank to reduce or stop charging 2% interest on revolving fund to contribute to SAF, which would be a violation of the agreement with donors. "Prof Yunus explains this in his letter dated January 8, 1998 which we attach with this statement."

Under these circumstances, the need for a new organisation emerged. This led to the creation of Grameen Kalyan as the dedicated organisation to utilise the interest income.

Empowered by a board decision and executing an agreement between Grameen Bank and Grameen Kalyan under which, an endowment to the extent of Tk 3,917 million and 14 thousand was created by simultaneous notional "transfer" of money. Grameen Kalyan was never given the control and possession of the fund. This simultaneous transfer and Grameen Bank receiving it back in the form of a loan, created an opportunity to charge interest on this loan. That interest income was earmarked to finance borrowers under Social Advancement Fund (SAF) as agreed by the donors earlier within the Bank. It was a financial innovation to benefit the poor. Grameen Kalyan received 2% percent interest on the money. This money was to be used to provide education and other services to the borrowers and employees of Grameen Bank.

The actions taken by the Board, which is comprised of 9 elected representatives of Grameen Bank borrowers, and three senior representative of the government, were viewed as the best use of the funds, a way to ensure Grameen Bank would remain financially accountable for the money while still ensuring that the borrowers received the most possible benefit from donors' grants. Afterwards not only Norad's money, but the 100% of all donor's money to the

extent of Tk 3,474 million and 501 thousand was "transferred back", from Grameen Kalyan to Grameen Bank, although the money was always in the Grameen Bank's account. Only SAF fund money amounting to Tk 442 million and 512 thousand remained with Grameen Kalyan as it was created out of

the interest. Some print and electronic media reported that Grameen Bank transferred Tk 7 billion to Grameen Kalyan, which is absolutely false. The Bank transferred to Gameen Kalyan Tk 3,917 million and 14 thousand as mentioned before and transferred back Tk 3,474 million and 502 thousand, which is stated earlier. These can be verified through Grameen Bank's annually audited accounts.

"If we convert the aforesaid amount at the prevailing exchange rate of 1996, then the 'transfer' stands at about US\$ 96 million and the 'transfer back' stands at approximately US\$ 85 million." Thus all the donors' money was transferred back and only US\$ 11 million remained with Grameen Kalyan as it was

report where it mentions that Grameen Bank transferred US\$ 100 million and transferred back only US\$ 30 million is completely false. All necessary entries had

been taken in the books of accounts of Grameen Bank to replace the transfer, though no physical fund transfer took place, as the fund was with Grameen Bank all along. The fund in question never went out of the Grameen Bank's account and the question of amount is false and baseless. All these talk about siphoning off are just empty words for sensationalism.

According to the management and board of Grameen Bank, there was no violation of any provision of the agreement with Norad. It was a matter of differing views on the subject. Norad considered it a departure from the provision of the agreement, while Grameen Bank thought it was done within the agreement. "Grameen Bank did not want go into battle on this issue and so jeopardise our excellent relationship. Grameen Bank

reversed its decision and created out of interest. So the restored the status quo." The concerns brought up

by Norad and the Norwegian government were treated with the utmost seriousness by Grameen Bank and Prof Yunus, and both sides worked to resolve the differing interpretation of a clause in their initial Agreement and arrived at a solution in a satisfactory manner. By restoring the status quo the matter was amicably resolved. It never came back since then. None of Prof Yunus siphoning this the parties involved felt

> This is an excerpt from the Norwegian Embassy's letter dated 26 May 1998: H.E. Ambassador Hans Fredrik Lehne and Einar Landmark wrote, "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". Reports gave the impression that these transactions were somehow secretive. There was nothing secretive about them. It was a matter of honest disagreement.

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