Muhith's briefing on Grameen Bank

Finance Minister AMA Muhith yesterday gave a briefing on the recent developments in Grameen Bank and its founder Prof Muhammad Yunus. The minister sat with ambassadors of different countries and representatives of multilateral agencies to make clear the government's stance on the issues. Dr Yunus faced a Bangladesh Bank order on Wednesday to give up his post as the managing director of Grameen Bank.

YOU were informed yesterday that Bangladesh Bank notified Prof Yunus that he is not legally the managing director of the bank and appropriate authorities should take steps to relieve him of the charge. Many of you have a special corner in your heart for Grameen Bank and Prof Yunus and some of you have spoken to me and my colleagues about the recent turn of events. I thought, therefore, to talk to you about the recent developments in this respect. I would like to state at the outset that we are not particularly happy about the way in which developments have taken place so far; I wish matters were resolved in some other manner. Some of us tried very hard to resolve the matter amicably with Prof Yunus on an informal basis. Personally I had always been in touch with him both informally as well as in my official capacity.

The government took note of recent media storm about Grameen Bank and set up a committee to deal with it with very clear terms of reference for an investigation of many issues and a complete review of Grameen operations and its legal position. Let me clarify that Grameen Bank was established in 1983 under an ordinance with many unique features. It is a government institution and not an NGO and like any other public sector institution it is governed by a law. Grameen Bank was established in 1983 under an ordinance with many unique features of the country. The issue of Prof Yunus' position in the bank turned out to be rather difficult from several points of view. The government took a lenient view of the matter and I tried my best for ensuring a smooth transition process in the management of the institution. Our move was directed to rectify a legal problem of transition in the management of the Grameen Bank that would honour Prof Yunus and recognise his contribution to Grameen Bank and remember the distinction he secured for the country.

I consider Prof Yunus a friend and an associate and we have been working in that spirit for four long decades. I was connected with the setting up of the bank in 1983 as minister of finance and planning at the time and I began talking to him about the future of the bank as a friend as I did it in the 1980s and later. It is not fair to disclose the details of our private discussion especially because I have always respected Prof Yunus and appreciated his concern for the rural poor of Bangladesh. I may add that I came to know him as a student activist in USA during the Liberation War of my country in 1971 and I have followed his dedication to elimination of poverty very keenly all these years. Many of my colleagues have personally put in their efforts to bring about a happy solution to the crisis that confronted us last December.

I suggested in my informal contacts with Prof Yunus that as the enquiry begins he hands over charge temporarily to the deputy managing director and rectify the illegality of his position. Then on conclusion of the review, the actual succession would be worked out as per law such as instituting a search process for the successor. We also thought that it would ensure a fair investigation and review and in the final disposal of the matter allow us to take into consideration the recommendations of the review committee. Incidentally the government decided to institute a review rather than an investigation so that the institution and its MD are not dishonoured in any way. I surmised that it will require a period of six months or so to complete the transition. In my discussions Prof Yunus wanted a chairman of his choice for the bank.

In our final discussion yesterday we talked about his role in the transition and the change of leadership. Here he made his voluntary retirement conditional on creation of a congenial environment because he feared that otherwise the institution would collapse. It was difficult for me to create "a congenial environment to his liking" and I do not believe that Grameen Bank would collapse with change of guards after so many years of its steady and proud performance. Hence the law took its routine course. Bangladesh Bank exercised its powers under section 45 of the Banking Company Act of 1991. I learn from news reports that Prof Yunus has decided not to abide by the direction issued by BB and endorsed by the ministry and instead chosen to settle the issue in the court of law.

He was appointed under the Grameen Bank law that authorized its Board of Directors to appoint the MD. The Board under section 14(1) can appoint the MD with the prior approval of Bangladesh Bank. Grameen Bank never sought it even after it was pointed out by Bangladesh Bank Audit Report. As the government requested Bangladesh Bank to take up an audit of Grameen Bank, the bank brought out the reality of operation of the Grameen Bank without a lawful MD and we thought that the position should be rectified and the law enforced.

I would like to take this opportunity to recall the history of Grameen Bank as I lived with it. The idea of helping the poor people was initiated in 1976 by Prof Muhammad Yunus as a small-scale experiment in Jobra. He developed an action research project to explore the provision of cheap credit for them and free them from the clutches of usurious money-lenders. Bangladesh Bank developed a project along with Prof Yunus in 1979 with a view to experiment a programme of bringing the rural poor under a sustainable credit network. This project successfully proved two principles: (a) that the rural poor are bankable as they repay their loans dutifully; and (b) that providing credit without collateral to the rural poor is safe, particularly when they are organized in groups and remain under peer pressure. The Grameen Bank operations created an opportunity to empower women in rural areas and increase effective demand in our rural economy.

This is the background that prompted the government of Bangladesh to take the initiative to explore a new horizon in micro credit sector through transforming the project into a chartered institution. Grameen Bank was established in 1983 under an ordinance as a non-bank financial institution. It functioned quite autonomously and was not subjected to routine regulation and supervision of Bangladesh Bank. It was the government, of which I was a part then, that appointed Prof Muhammad Yunus as the first managing director along with a chairman and all 10 other directors of the board.

The Grameen Bank Ordinance of 1983 was amended twice once in 1986 that reduced government share from 60 percent to 25 percent and then in 1990 when the appointment of the MD was transferred from the government to the board of directors. In the original board, eight directors including the chairman and managing director were appointed by the government and four were to be elected by the borrower shareholders. The amendment of 1986 reduced government nominated directors to 4 (including chairman and MD) and the later amendment reduced it to 3 as MD became a nominee of the board. The service rules issued by Grameen Bank provided for retirement of Grameen employees at the age of 60 and the MD is an employee of Grameen Bank. This issue confronted the board of directors as Prof Yunus became 60 in 1999 and the board decided to waive this age limit indefinitely for Prof Yunus as they reappointed him MD until further orders.

Grameen Bank is an institution in which the government takes pride. And we believe that the hard and dedicated efforts of the Grameen employees and borrowers under the able leadership of Prof Yunus have earned for the institution the place of honour that it occupies not only in Bangladesh but also abroad. The success of Grameen Bank made the micro credit programme known and popular worldwide. It should not be forgotten that Honourable Prime Minister Sheikh Hasina played a very important role in promoting Grameen Bank and the cause of micro-credit when she agreed to co-chair the Micro-credit Summit in 1997. Her government bailed out Grameen Bank when a large number of its borrowers lost their homes and assets as a result of the great floods of 1998. She is determined to uphold the reputation of the bank and strengthen the micro-credit programme as one of the many modalities for eradication of poverty. In 2006 Grameen Bank and its managing director were awarded Nobel Peace Prize and this is still a matter of national rejoicing.

Since the inception of Grameen Bank 27 years ago, its activities as well as its mode of operations have not been evaluated at all. Grameen Bank is not an NGO. It is not under the regulatory jurisdiction of Micro-credit Regulatory Authority. Even Bangladesh Bank performs a relatively minor role in supervision and audit of its operations. Although it began as a bank for the assetless poor of rural areas, it has branched into a lot of subsidiary institutions and into social investment enterprises. But Grameen Bank essentially is a government institution governed by a unique law.

Recently while such a review was being considered (I have been in discussion with Prof Yunus for about a year and I also invited some of my colleagues to discuss the subject), the Norwegian Television broadcasted a critical report on Grameen Bank and it attracted the attention of world media and especially of the media in Bangladesh. In this context, the government obtained a statement from the Norwegian Authorities and also solicited explanation from Grameen Bank. Meanwhile the affairs of Grameen Bank gave rise to a media storm. The government then decided to institute a review to clear the air and maintain the strength and reputation of Grameen Bank. I would suggest that you take a careful look at the terms of reference of the review to be assured that there is no attempt at upsetting in any way the reputation of the bank or of its founder managing director.

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Finance Minister AMA Muhith talks to ambassadors of different countries and representatives of multilateral agencies at a media briefing at his ministry in Dhaka yesterday.

Why property prices in China won't fall

GEORGE CHEN

Let's face it it appears there is only upside for property prices in China.

Chinese officials from Premier Wen Jiabao on down to small city mayors have been telling the public they will try their best to keep property prices under control and have indeed done much in the past 12 months via tightening monetary policy and government restrictions on property purchases. The result? Unfortunately, the more they talk, the more disappointed Chinese people feel.

The People's Bank of China, the country's central bank, has so far raised bank required reserve ratios (RRR) nine times since January 1 last year. The most recent on February 18 brought the RRR to a record 19.5 percent. The theory is that as banks place more money with the central bank, market liquidity should tighten and buying power for everything, not just property, should weaken.

China's central bank has also raised its benchmark interest rate three times since October 19, most recently on February 8. Again, in theory, raising both deposit and lending rates can offer defense against fast-raising inflation, cooling some overheated sectors and also discouraging people from buying property, given the higher mortgage rates.

However, we all know that what works in theory doesn't always carry over to the real world. So, what's happening in the real world these days?

Property prices in Shanghai, China's financial capital, rose more than 1 percent year on year in January. The increase came after the city announced a controversial new property tax plan that angered the growing middle class. For Hong Kong's neighbor, Shenzhen, price levels rose 2 percent, surprising even local officials who had expected a greater impact from the city's most recent restrictions to limit property purchases by non-residents.

In Hong Kong, a new apartment project in the popular downtown nightlife area Soho went on sale last week. A 400-plus sq ft unit was offered at about HK$18,000 per sq ft and although you have to pay up front, you also have to wait a few months before you get the key. About three months ago, after the former British colony announced its toughest policy efforts including a high additional transaction tax targeting property speculators, a three-year-old apartment sold for about HK$12,000 per sq ft.

Now, even the city's property agents are shocked by the pace of the increase. When Hong Kong property prices matched the peak seen in 1997 late last year, many people expected a crash. Now the 1997 peak looks more like the new bottom from 2010.

This week, China's top five banks decided to scrap mortgage rate discounts for first-home buyers in some big cities such as Beijing and Shanghai as part of the latest round of efforts led by the government to cool the red-hot property market. Last year, they removed discounts for buyers of second and third homes. Can this zero-discount policy for first-home buyers, which is widely considered the last effort by Chinese banks to help the government rein in property prices, really have an effect this time? I doubt it.

So, what's the core reason preventing property prices in China from falling at the government's behest, despite the toughest policy curbs in the past one to two years? The answer is simple there's just too much money about. If you think even deeper, the true and sad story is that all this liquidity is in the hands of too few people in China and those people simply don't care about mortgage discounts or other policy curbs.

The more challenging question is: why is so much money is held by so few people? This may be part of the so-called "deep-rooted and underlying problems" that government leaders from President Hu Jintao to Hong Kong's Chief Executive Donald Tsang are studying. Can they solve it? It will take time, and we're unlikely to see a solution before the end of the Hu administration.

The "deep-rooted and underlying problems" are about why the income gap in China is expanding instead of shrinking as China becomes the world's No.2 economy. It's also about the way some people can make money so quickly and easily while others cannot. In other words, does corruption contribute to the rise in property prices? Is today's market dominated by "special interest groups" rather than genuine home buyers who just want a place to live?

From this perspective, interest rate increases and other property market restrictions simply aren't game-changers as these factors are not the key rules for the game in the capital markets. Sad but true, expecting property prices to fall 50 percent in a year just because the Big Five banks remove mortgage rate discounts for first-, second- and third-home buyers may be, I have to say, too naive.

I suspect the only time property prices will become more acceptable is when Beijing is able to narrow the income gaps between the super-rich, the middle class and the poor.

We don't care whether property prices fall or not, what we care about is whether we can afford to buy the property. When the general public becomes richer as individuals, and even these high property prices become more affordable, we may hear fewer complaints.

The writer is a Reuters editor and columnist based in Hong Kong. The opinions expressed are the author's own.

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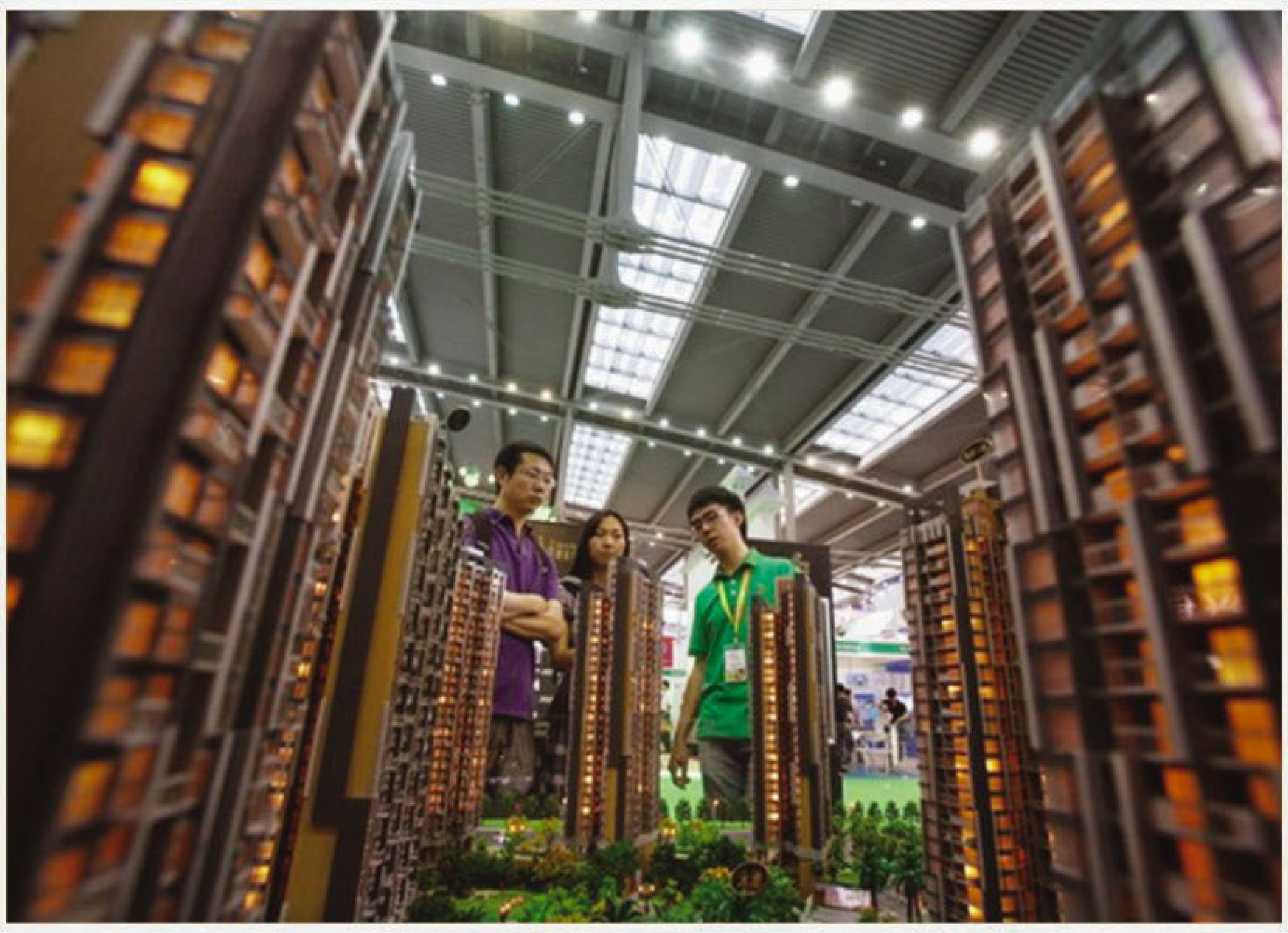

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A couple is accompanied by a sales agent (R) in front of the model of a property development, at the 5th China (Shenzhen) Real Estate Fair in the southern Chinese city of Shenzhen.