

Grameen Bank's response to the issues raised in the Bangladesh Bank's Review Committee Report as reported in the press

(Cont. from May 4)

9. Grameen Bank gave Borrowers Investment Trust Tk.79.11 crore in violation of rules.

Grameen Bank (GB): The Borrowers Investment Trust was created in conformity with the provisions of the Grameen Bank Ordinance 1983. In accordance with the decisions of the Board of Directors of Grameen Bank, Tk.79.11 crores was given to the Borrowers Investment Trust from the Dividend Equalisation Fund with a view to financially benefiting from buying shares of Grameenphone and so contributing to the welfare of borrowers. For this reason, the comment in the report that this is not in conformity with the Grameen Bank Ordinance is not correct.

The Borrowers Investment Trust was created with the advice of Grameen Bank's lawyers. In a similar way, under the Trust Act, the General Provident Fund Trust and Grameen Bank Superannuation Trust were created for the maintenance and management of staff and employees' provident fund and the maintenance and management of pension accounts respectively.

10. Not creating legally required reserve fund.

GB: The statement that Grameen Bank did not create legally required reserve fund is not correct.

According to Section 25 of Grameen Bank Ordinance, 1983 a reserve fund was created with the approval of Grameen Bank's board. This is known as General Reserve and shown in Grameen Bank's balance sheet. Currently, the general reserve is greater than the amount of paid up capital. In 2010, the amount of paid up capital was Tk.54 crore and 77 lakh. At the same time, the amount of general reserve was Tk.139 crore and 40 lakhs.

11. By mobilising deposits at a high interest rate, and investing at low interest rates the Bank has incurred a loss.

GB: There is an important reason behind why Grameen Bank pays a high interest on deposits. Only Grameen Bank borrowers are allowed to open saving accounts which pay a high rate of interest. This Grameen Bank rule is in line with its basic reason for its existence: Grameen Bank is a bank created for the welfare of landless, rural hard-core poor people. By obtaining deposits at a high interest rate, the Bank encourages savings among the borrowers to strengthen the economic situation of its borrowers.

Grameen Bank depositors live throughout rural Bangladesh. Bangladesh is a country which is prone to regular natural disasters. Frequent storms, floods, tidal waves, etc., negatively affect the depositors of Grameen Bank. At these times, a need for the depositors to immediately withdraw their deposits is created. Grameen Bank remains prepared to be able to fulfil withdrawal of deposits on demand. Grameen Bank keeps a certain percentage of its deposits liquid through investing it internally in commercial bank FDR.

Moreover, to ensure that Grameen Bank is able to continue its loan disbursement and repayment of loans taken to face natural disasters both from within the country and from abroad during times of liquidity crisis so that the Bank does not default even for one day, it is necessary to keep aside the required funds. This is why

Grameen Bank has never defaulted even for one day on loan taken in early period of Grameen Bank both within the country and from abroad. The DSL department of the Finance Ministry has appreciated that Grameen Bank has always been able to repay its loans precisely on time.

The Bank has not been adversely affected by paying a high interest on deposits and investing those deposits at a low interest rate. It is necessary to keep a certain amount of deposits in hand to ensure liquidity. Rather than keeping idle cash funds, the Bank invested it in commercial banks at the going interest rates. Balancing the contradictory objectives is the goal of fund management.

12. Improper use of Rehabilitation Fund.

GB: The Rehabilitation Fund was created on the recommendation of the government to rehabilitate Grameen Bank borrowers affected by natural disaster. Since the fund was created in 1999, there was no scope to use it for those affected by the severe floods in 1998.

Bangladesh is a country affected by natural disasters such as floods, drought, cyclones, tsunamis etc. Considering that big natural disasters can take place at any time, and with view to creating a sustainable long term fund, the Grameen Bank used this fund only during times of need.

Grameen Bank wanted to ensure that the fund would be available for disaster, and would not be exhausted for lesser priorities. Grameen Bank was very selective in giving grants and donations. In this connection, it should be mentioned that there was no opportunity to increase the fund, since there was no scope to deposit any more money into the fund under the arrangement with the government, after 2005.

Considering all aspects, the fund was used properly and judiciously to rehabilitate those Grameen Bank members genuinely affected by natural disasters.

13. Grameen Bank's response to the issue of Packages Corporation Ltd. as raised in the Review Committee Report.

GB: Grameen Bank's loan and savings programmes is based on a weekly schedule. In order to efficiently manage these programmes, Grameen Bank requires large quantities of printed materials (ledger, registry books, various types of pass books, forms, advice sheets, withdrawal forms, signature cards, etc.). In 1988, once Grameen Bank started work on its expansion phase, there was a large increase in the demand for such printed materials. Because suppliers of such printed materials were not able to ensure that such stationery was supplied on a timely basis, the Bank's routine work was at times disrupted. Under these circumstances, to ensure the timely supply of stationery, thought was being given to setting up a printing press within Grameen Bank. However, this would have required a large investment (land, machineries, building, etc.). In this context, Professor Muhammad Yunus convinced his family to hand over their family printing business, Packages Corporation Ltd., to Grameen Bank for its own use, under a management agreement. In this way, Grameen Bank would be able to ensure that the required printed materials could be supplied on a timely basis. Grameen Bank's use of the printing press of Packages Corporation Ltd. for its

own printing work is allowed by Section 19(e) and 19(u) of the Grameen Bank Ordinance 1983.

Under the terms of the agreement, the owners have not benefited financially or in any other way. The owners agreed not to accept any share of profit, did not charge any rent on the building and machineries, any fee of any kind, or any other form of financial benefits from Packages Corporation Ltd. during the tenure of the management contract with Grameen Bank. Packages Corporation Ltd. was provided with loans to enable it to

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increase its capacity and efficiency. These loans were provided from funds provided by donors to create, promote or apply new technology and to create new business and employment opportunities. Donors were aware that Packages Corporation Ltd. was given these loans and had given their consent. Grameen Bank has never provided Packages Corporation Ltd. with loans from its own funds. The loans provided to Packages Corporation Ltd. from donor funds have been repaid with interest. Packages Corporation Ltd. worked for Grameen Bank exclusively.

14. Retirement of managing director after his reaching 60 years of age.

GB: In accordance with the Grameen Bank Ordinance 1983, Grameen Bank was established with the government having 60% ownership and the rural landless poor having 40% ownership. Afterwards, on September 13, 1983, Professor Muhammad Yunus was appointed as the managing director of Grameen Bank by the Finance Department of the Finance and Planning Ministry of the government. On his appointment letter, no age limit was mentioned for the position of managing director. In 1990, through an amendment of the Grameen Bank Ordinance, the ownership structure of the Bank was significantly altered. The government's ownership was reduced from 60% to 25%

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of the Bank, whereas ownership of the rural, poor, landless members of the Bank was increased from 40% to 75%. As a result of the government's reduced ownership of the Bank through the amendment of the Ordinance, with the prior approval of Bangladesh Bank, the power to appoint the managing director of Grameen Bank was now entrusted to the Board of Directors of Grameen Bank. In accordance with the amended Ordinance, the chairman of the

Board of Directors of Grameen Bank sent a letter to the governor of Bangladesh Bank on 14-08-1990, requesting approval of appointment of Professor Muhammad Yunus as managing director of Grameen Bank. In a letter from Bangladesh Bank, bearing reference No. BCD (P) 744 (37) 1238, dated 25-08-1990, Bangladesh Bank gave its prior approval for the appointment of Professor Muhammad Yunus as the managing director of Grameen Bank. Even in the letter of approval from

Bangladesh Bank, no age limit was mentioned with regard to the appointment of Professor Muhammad Yunus as the managing director of Grameen Bank. In keeping with the content of the approval letter of Bangladesh Bank, Professor Muhammad Yunus was appointed as the managing director of Grameen Bank. There was no mention of age limit for retirement in the letter of appointment issued to Professor Yunus. On 20-7-1999, in the 52nd meeting of the Board of Directors of Grameen Bank, the issue of retirement of Professor Muhammad Yunus was raised and deliberated upon. After discussions, the chairman, with reference to Section 14(1) of the Ordinance, concluded that since the power of appointment of the managing director was vested in the Board, and since Professor Yunus was appointed by the Board, the age-limit for retirement as contained in the Service Rules of Grameen Bank would not be

applicable to Professor Yunus. All other members present in the meeting also expressed consensual opinion in favour of retaining Professor Yunus as the managing director, and a Board resolution was accordingly adopted. In the same meeting it was also resolved that in order that there be no problem in the appointment of managing director subsequently, necessary steps should be taken to

15. Loans provided to Grameen IT Park by Grameen Bank were beyond its jurisdiction.

GB: Grameen Bank did not provide Grameen IT Park with any loans. Grameen Bank rented out office space to Grameen IT Park. Since the organisation was not able to carry out its business activities as planned, it became a loss making organisation, and could not pay the rent for the space it rented from Grameen Bank. Since Grameen Bank was not able to recover the amount owed to it as rent from Grameen IT Park, following the existing accounting rules, the account was written off. Grameen Bank did not provide Grameen IT Park with any loans nor did it write off any loans given to Grameen IT Park.

16. Floor rented to Yunus Centre at nominal rate.

GB: Grameen Bank authority leased a floor of the Grameen Bank building to Professor Yunus for his efforts in bringing recognition to the country and turning Grameen Bank to an organisation of national pride just as the government give rewards to special person or winning football team or cricket team for enhancing the image of the country. After he received the Nobel Peace Prize, a decision was

approval had not been obtained from Bangladesh Bank "pursuant to Section 14(1) of the 1983 Ordinance in this regard," i.e., about Resolution in the 52nd meeting that there was no age-limit for retirement of Professor Yunus and that he would remain in his post until otherwise decided by the Board. In response, Grameen Bank, through its letter dated 20-06-2001 informed the Bangladesh Bank that the petitioner had been appointed as managing director pursuant to approval dated 28-09-1990 given by Bangladesh Bank.

Bangladesh Bank and Grameen Bank officials held a Joint Meeting on 15-01-2002 for paragraph-wise discussion of the Compliance Report dated 20-6-2011. Regarding the aforesaid Paragraph No. 21.2, it was decided that the objection of Bangladesh Bank would be considered resolved upon submission by Grameen Bank of a copy of the gazette providing that the Service Regulations of Grameen Bank would not be applicable to the managing director. Accordingly, the Regulations regarding Appointment of the Managing Director 2001 were submitted by Grameen Bank as enclosure "Gha" under cover of a letter dated 16-01-2002.

No further mention has been made of the matter, i.e., of any requirement of obtaining prior approval for the appointment of the managing director, in any of the subsequent Detailed Inspection Reports issued regularly by Bangladesh Bank since that date, i.e. for over eleven (11) years. It may be noted that such Reports contain a section regarding compliance with the previous year's inspection, and remarks are made there with regard to any issue of non-compliance. The Bangladesh Bank had made no remarks with regard to the service of the managing director for over eleven years, and thus it was manifestly evident that the Bangladesh Bank had no further concerns regarding or objections to the matter.

17. Member, directors and government nominated directors do not have any role in the Board of Directors.

GB: Of the 13 Board members, 9 are elected from Grameen Bank members and the remaining 3 members are nominated by the government. The government nominates the chairperson and two high level government officials (usually of rank of secretary) to be members of the Board of Directors. To date, the Board always ended up with unanimous decisions. If a member raises an objection over an issue, and he/she cannot be persuaded by arguments of others, then with unanimous decision the item in the agenda is withdrawn

from discussion and the management is asked to review it and bring it up in the next meeting. In other words, the Board always aimed at arriving at a consensus decision.

From the beginning, the chairperson of the Board has been chosen from among the nationally known personalities. In line with regulations, 9 Board members are elected in a transparent process from the borrower shareholders, and these Board members represent the Grameen Bank members on the Board of Directors. The presence of these 9 borrower shareholder members creates a special environment for discussion in the Board. With their participation, it is possible to exchange views regarding the acceptability of decisions made by the Board. It is not possible to gain this insight from anyone else. They are the owners of the Bank. All of the decisions taken by the Bank will come to bear on them. Their lives are intertwined with Grameen Bank. With their presence in the Board Meetings, the discussions become more realistic and rooted in their life experiences. They provide the immediate sounding board for all decisions.

The chairperson, the two government-nominated Board members and the elected members from Grameen Bank's borrower shareholders all have extremely important roles to fulfill, and they carry out their responsibilities in a totally dedicated way. It is very unkind and unfair to question the role of the Board Members of Grameen Bank.

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Conclusion

Grameen Bank has always tried to work with transparency and within legal bounds. There may be shortcomings in its innovative creations, but there was never any deliberate intention or tendency to break any law. Socially committed members of Grameen Bank's Board have performed their responsibilities with great sincerity. If the review committee had the full understanding of the laws, rules and procedures guiding the operation of Grameen Bank, they would not have made the negative comments that they made, nor reached the negative conclusions they have reached.

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