

Future of Grameen Bank: My fears

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Formation of the Commission of Inquiry

The news was unpleasant to me as well as many others in the country, specially the poor women who are the owners of Grameen Bank. The finance ministry formed a four-member Commission of Inquiry through promulgation of an order on May 15, 2012. The Commission has been given three months to submit its report.

We have set a record through formation of the Commission of Inquiry on Grameen Bank, which is the only Nobel Prize winner organisation of Asia among the 20 winner organisations in the 120 years history of the Nobel Prize. It will remain an unforgettable episode in our history!

But why Commission of Inquiry on Grameen Bank?

Is it the government's dissatisfaction with its innovative modus operandi, and a new system of management which has been able to draw international recognition of the Bank as welfare oriented bank of the poor? Is it because the government has not been satisfied with the management and the outcome? Or has Grameen Bank caused a large-scale catastrophe for which the Commission of Inquiry has become necessary? What issue of public importance has Grameen Bank created that requires an enquiry? So far all the inquiry commissions that the government has formed have been done after a large scale mishap had occurred and which had raised various questions in the mind of the people. The law regarding formation of an inquiry commission was made considering this type of situation.

This Commission has been tasked to submit its opinion / recommendation reviewing the activities of the Bank from its inception up to 2010. I was the chief executive during this time. I do not understand why the period after 2010 has been left out of the review. Have all the problems of the Bank after 2010 been solved? Usually an inquiry commission is asked find out the causes and offer solution after an incident. But this time the Commission has been asked to determine the future path of a distinguished organisation after reviewing its gigantic activities and its fundamental issues since the very beginning of the organisation. It will be difficult for the Commission to complete this huge task with its inadequate manpower. If the Commission gives wrong advice due to time constraint then the consequence might be terrible for the poor people of Bangladesh.

This type of task is usually given to the best researchers of the best research organisations as a long term project. To prepare the inquiry report it is necessary to confer with people who have set up such organizations, managed such organizations, and are beneficiaries of and familiar with such organisations and after a detailed discussion put these up for the consideration of the executive committee. Gradually the suitable recommendations of the inquiry report are carefully implemented without impeding the ongoing function of the organization. Seeing the time limit of the Commission it seems that it has no other alternative but to start their work with scissors and knives.

Grameen Company

In the terms of reference of the Commission the government has raised many question about all those organisations prefixed with the word Grameen. One can sense from the questions that all these organizations have been established under the ownership of Grameen Bank, but actually these companies are not controlled by Grameen Bank. I have said many times that it is very easy to get the answers to these questions. If an internationally reputed audit firm is given the task it can easily find out the history of the Bank's monetary transactions. So what is the need of forming a full-fledged inquiry commission? Why such a big arrangement by the government to find out whether Grameen Bank is the owner of these companies, whether it established these companies?

I have established many organizations on my own initiative. I have been using the name 'Grameen' with their name. Most of these institutions are 'not for profit' organisation. According to the law, these institutions do not have any 'owner'. Most of these institutions are established according to Section 28 of the Company Law. These are non-stock companies and no one gets profit since no one has ownership of these organisations. These organisations are circumscribed by the personal guaranty of the sponsors, i.e. if a company fails to pay its debt then the sponsors are obligated to pay up as per the limit of their guaranty. So there is no question of Grameen Bank's ownership of these organisations. There are some organisations that are profit-oriented. And those are owned by 'not-for-profit' organizations. So there is no scope for Grameen Bank to become the owner of those organizations.

Grameen Bank has not established any organisation itself since Grameen Bank law has not empowered it to establish such organizations.

There are reasons behind the creation of these organizations. When we go to work with poor people we have to face many problems besides loan. Education problem (Grameen Shikha), health problem (Grameen Kalyan), marketing problem (Grameen Check), agricultural problem

(Grameen Krishi), fisheries and animal farming problem (Grameen Motsyo), technological problem (Grameen Telecom, Grameen Communications), insurance problem (Grameen Byabsa Bikash), electricity problem, problem of burner (Grameen Shakti), etc. I have established each company to address each problem. When I want to solve any problem I create a company. I arrange such a mechanism so that they can operate from their earnings; they do not have to count on others, so that if any company goes down it cannot take the others with it.

All the companies are innovative. We have tried to solve problems using innovative ideas, concepts and methods. Many of these companies have gained exemplary status in the world. Providing mobiles to village women through Grameen Telecom has created new example among the telecom companies of the world. Grameen Shakti has established example of family level electricity generation. In this year through Grameen Shakti it



would be possible to reach 10 lakh village families. This company is establishing solar plant for 1000 families every day. No one has personal ownership of these companies. These are 'trust' like organisation, established for the well being of people. These companies have not been created for anyone to earn profit from. There is no scope of personal profit from these organizations.

I have no share or ownership in Grameen or any of these companies. I have no share in Grameen Bank. So there was no scope for me to get profit from these companies, not before and not now. I have never received any remuneration for attending or conducting any meeting of the board of Grameen Company.

Another TOR of the Commission is 'What are the succession rules for ownership and management of these institutions.' Interestingly all the companies are registered under the Company Act.

The rule of formation and restructuring of the managing committee is clearly stated in the constitution of the registered company. Our local rule is enough to determine the inheritance of share. It is common that children succeed their father. And as there is no issue of owning share in Grameen institutions so the issue of inheritance of ownership is irrelevant here. Therefore, it will not be wrong if question arises in public mind, seeing the government's effort to mull on the laws of succession of ownership through establishing a commission.

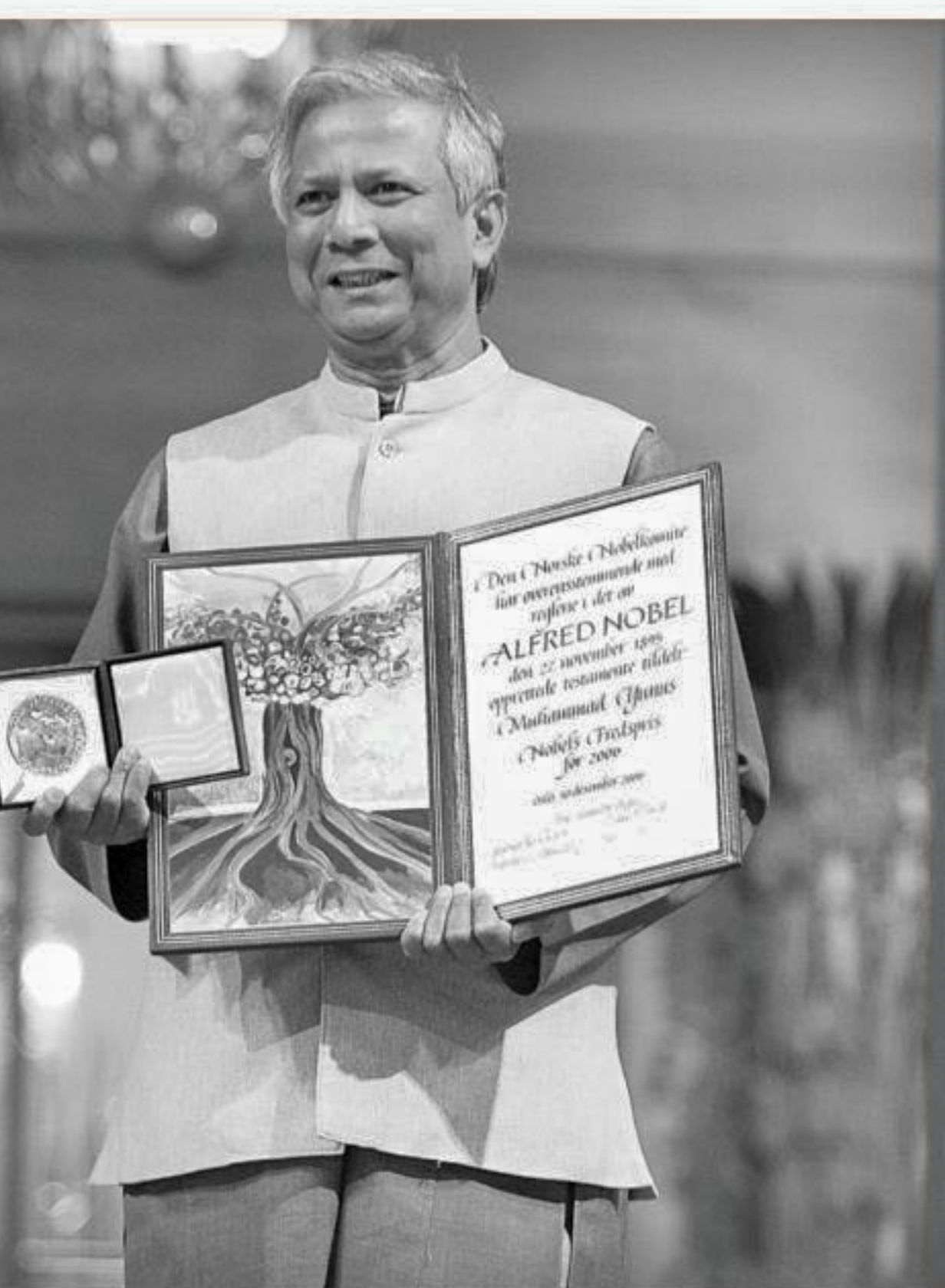
If one looks at the TOR of the Inquiry Commission one will find that the government is very interested in the relationship between Grameen Bank and other organizations titled Grameen.

It is not understandable why the government had to be so interested about the succession of a private organisation (even if there is share-owner of the organization) that it had to form a commission of inquiry. It is bound to raise questions that an inquiry commission has been formed to dig out that relationship as there is no question of ownership since the very beginning of the institution, and not even to this day has Bangladesh Bank ever mentioned it in its yearly audit reports -- and the Awami League government did not raise any question about it in their previous five years term -- specially a Commission whose modus operandi and recommendations would be debated rigorously for many years at home and abroad.

Backdrop

Grameen Bank started its journey in 1976 in the village of Jobra in Chittagong. I loaned Tk.856 from my own pocket. I then became a guarantor and began giving loans from the local branch of Janata Bank. In 1978, with the help of the then Managing Director of Krishi Bank, Mr. Anisuzzaman, it was transformed into a project of Krishi Bank. Upon approving my proposal, he opened a new branch in Jobra village just so it could be managed under my supervision. It was called 'Krishi Bank, Experimental Grameen Branch.' In 1979, it had expanded considerably

with the enthusiasm of the Deputy Governor of Bangladesh Bank, Mr. Ganguly, and on my proposal. From a Krishi Bank project it now became a project of Bangladesh Bank. The programme of distributing microcredit was adopted across the region of Tangail. All the public banks became a part of this project. I set up the project headquarter in Tangail. I moved to Akur Takur to look after the project. I stayed there from 1979 to 1982. After expanding the project to five more districts following the suggestions of Bangladesh Bank, the headquarter was shifted to Shyamoli, Dhaka, despite disagreement on my part. In 1983, with the encouragement I received from the then Finance Minister, Abul Mal Abdul Muhit and approval from President Hussain Mohammad Ershad, 'Grameen Bank Ordinance 1983' was made and passed. The Grameen Bank project became 'Grameen Bank.' I raised strong objections against the new laws regarding the arrangement of ownership, and the government ownership was 60%, meaning it was



turned into a government bank. I refused to go ahead with the prevailing structure. Honourable Finance Minister assured that he would soon change it to a private bank but he never had the chance to do so. He had, by then, resigned from his post. The task was carried out by his successor, Mr. Sayeeduzzaman on July 8, 1986. Changing the ownership arrangement, he amended the law accordingly. 75% of the ownership was now under the loan receivers, and 25% under the government. In that order, the structure of the Board was modified. The board would consist of 9 representatives of the loan receivers, 3 from the government and the Managing Director himself. Another amendment came through on July 31, 1990. It will be managed by the board of directors -- not the government. Grameen Bank has been operating in this manner since 1990. At present, the loan receivers own 97% of the shares, and the government the remaining 3%.

The reason why the shares owned by the government came down from 25% to 3% is that the capital that the government invested at the beginning did not see any increment. On the other hand, the number of loan receivers steadily escalated. Each one of them bought shares. Each share costs Tk.100. If the savings of a loan receiver exceeds the value of Tk.100, he can buy a share worth Tk.100 and so he does. As a result, the number of shares of the loan receivers has only been increasing. It is for the same reason that the shares owned by them now stands at 97%. If the government does not boost its capital, and if the shares of the loan receivers keep increasing, then the shares owned by the government will keep declining.

The initiative that started with Tk.856 is now a bank that gives loans worth Tk.12,000 crores to 84 lakh loan receivers. At present, Tk.7,000 crores exist in the loan receivers' personal saving fund. The poor women have saved Tk.7000 crores in their personal savings accounts, which only increase steadily. They have their own pension fund. It has given education loans of nearly Tk.300 crore to their children for higher education. It has continued giving more educations loans every year.

The reason why Grameen Bank could be established into a strong and successful organisation within 1990 is because the Bank, upon appropriately amending its provisions, handed its ownership to the loan receivers and delegated all its management and decision making to its board of directors.

A lot of people think of Grameen Bank in the same league as other banks and consequently, they end up with wrong conclusions. They believe that the only characteristic of this bank is it gives loan in small amount. That is not the case at all. It is the only bank in the world that runs without taking single collateral. For this, no deed is required. This bank extends its care and support to the very doorsteps. Each week, it retrieves the interest of its loans from their doorsteps. No one is required to come to the office to deposit money. After a loan has been returned, it does not take time to get a

new loan.

If the loan receiver or her husband dies then they do not have repay the remaining amount. But new loan can be applied for immediately. Donation is given for jaanaja if the loan receiver dies. The manager of the branch has to attend the jaanaja. The children of the loan receiver get loan for education. Every loan receiver is an owner of the Bank. This system is quite opposite to the mainstream banking system. That's why Grameen Bank succeeded in bringing banking service to poor women. This is what lends importance to the bank.

Terms of reference

Considering the range of the Commission's activities one fears that the government wants to bring changes in the legal structure and management system of Grameen Bank. The commission's ToR includes:

1. To identify institutional strengths, weaknesses of Grameen Bank, and the future impediments, since its inception till 2010;
2. To recommend measures for good governance, especially accountability of the management and transparency;
3. To give opinion on structure of ownership, representation in the board and capability of the board members.

What will be the measure of identifying institutional strength and weakness?

Questions will arise about that section of the ToR where it is said that the Commission will identify institutional strengths, weaknesses and impediments. What will be the indicators? Will they count return rate of loan, interest rate, profit and loss of the Bank, loan receiver and coordinator ratio, MIS, usage of technology, administrative efficiency, facilities for employees, arrangement of fund, annual GDP, number of poor women beneficiary who receive loan, rise of their saving capacity or other indicators? What and who will be their standard? Will they create any imaginary standard or compare with other microcredit organisations in Bangladesh? Will they compare Grameen Bank with other banks like Agriculture Bank, Sonali Bank, Employment Bank or any international bank?

I hope they will understand that any crafted opinion without keeping the realities in mind will not be acceptable.

Every year Grameen Bank is audited and visited by Bangladesh Bank. Bangladesh Bank has a separate division for that and they are doing the job over the years. They have all the information of Grameen Bank. Their efficient officers have investigated branches and headquarter of the Bank and never found anything sensational for which the Bank could find itself in trouble. Every year Grameen Bank has given them satisfactory answers to the question they raised. Over the years Bangladesh Bank has been giving clearance to the Grameen Bank.

Once, Bangladesh Bank raised an important issue with Grameen Bank.

In 2000, Bangladesh Bank raised question about my age limit. We replied that in the regulation of Grameen Bank there is no rule about the age limit of the managing director. Bangladesh Bank asked Grameen Bank to submit the papers to it. After submitting the papers a joint meeting was held. On January 15, 2001, 3 high level officers from Bangladesh Bank sat with 3 high level officials of Grameen Bank. The meeting settled the issue and asked for some papers from Grameen Bank and Grameen Bank provided the papers accordingly. When the issue was settled, I was 61 years and 6 months of age. Although I was over 60, Bangladesh Bank did not find it necessary for me to get permission after that event. In the following audit reports Bangladesh Bank never mentioned it as an outstanding issue. Bangladesh Bank raised the issue at the right time and we gave them satisfactory explanation.

Other than Bangladesh Bank, Grameen Bank has been audited by two famous audit firms every year since its inception. They have repeatedly written to us about our accounts and management being of international standard.

To ensure the good governance of Grameen Bank, especially accountability in its management and transparency, a recommendation has been requested from the Commission of Inquiry.

After so many years and so many audit reports, after all the investigations, awards and accolades, the questions that have been raised all of a sudden regarding governance, transparency and accountability of Grameen Bank may have perturbed many like me -- especially in a country like ours. Instead of instituting inquiry against those that sit at the top of the list considered on the basis of lack of character and competence, the government's attention towards Grameen Bank has surprised many. Many of the readers may be confused whether they need to read the ToR as it is or through a special glass.

Many share my sentiment -- that injustice has been done to the four respected persons who constitute the Inquiry Commission. If they are not familiar with the world of microcredit, it will only complicate matters for them.

Though the concept of microcredit was first introduced in Bangladesh, it is now wide-spread all

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