



ROYAL NORWEGIAN EMBASSY
DHAKA

Enquiries to

Our Date
18.03.98
Your Date

A

Our Reference
97/00051-33
Your Reference

The Secretary
Economic Relations Division
Ministry of Finance
Sher-e-Bangla Nagar
Dhaka-1207

CONFIDENTIAL

Att.: Dr. Masihur Rahman

FORTROLIG

I h.t. Beskyttelsesinstruksen,
jfr. offentlighetslovens
§ 5A jfr. forvaltnl. § 13

Dear Dr. Masihur Rahman,

**Re.: THE AGREEMENTS BETWEEN NORWAY AND BANGLADESH
REGARDING SUPPORT TO GRAMEEN BANK**

Reference is made to the meeting in your office on 16.03.98.

The governments of Norway and Bangladesh have two current agreements concerning support to Grameen Bank Phase IV (1993-97), one signed 14.12.93 for NOK 30 mill for house loans to the members of Grameen Bank, and one signed 30.11.94 for NOK 120 mill, of which about NOK 90 mill was earmarked for house loans. In Annex I to the last mentioned agreement it is stated under clause 4:

"The amount of the grant used for housing loans will be used as a revolving fund."

In Grameen Bank's request for support to Phase IV, the Preparation Report, budget for the Revolving Fund to year 2005 was shown.

In exchange of letters between the Embassy, dated 17.09.97, and Economic Relations Division, dated 27.10.97, an addendum to the agreement of 31.11.94 was agreed, part of which reads:

"It shall be a condition for the disbursement of the remaining funds under the agreement that Norway shall continue to receive annual reports regarding performance of the Revolving Fund for the House Loans over a period of four years from 1998."

On the basis of this addendum to the agreement the Embassy disbursed the remaining amount of NOK 32.2 mill under the agreement of 31.11.94 by letter of 05.11.97.

Only after this last disbursement the Embassy received Grameen Bank's Annual Report for 1996, and learned from a footnote to the accounts that with effect from 31.12.96 all funds given to Grameen Bank from donors for onlending to Grameen Bank's members through revolving funds had been transferred to an institution called Grameen Kalyan, which the Embassy had no information about at that point

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of time. The Embassy held a meeting with the Managing Director of Grameen Bank, Professor Muhammad Yunus, on 03.12.97 to get more information about the transaction and about the revolving funds. After the meeting two letters were written from the Embassy to seek clarifications, and two answers were received from Grameen Bank management. This correspondence is enclosed for your information.

The arguments presented by Grameen Bank about the purpose of the agreement with Grameen Kalyan are focusing on needs to: -

- manage Grameen Bank's assets and financial resources more professionally and efficiently,
- put pressure on Grameen Bank to ensure Grameen Bank management's transparency, accountability, responsibility and discipline in enforcing repayments of loans from the members of Grameen Bank,
- avoid absorption of the funds by multifarious other demands of Grameen Bank and erosion due to lack of accountability,
- reduce tax on the hand of Grameen Bank, and
- invest in other types of projects than Grameen Bank can do.

These reasons are not convincing. The concerns about financial management, repayments, accountability, discipline and tax appear to be internal Grameen Bank problems, and there should be no scope for diverting donors' funds from the revolving fund for house loans, which they were granted for, to new investments. Grameen Bank has earlier placed temporary surpluses of liquidity of the funds made available for house loans in interest-earning accounts in commercial banks. From the Embassy's point of view this is a more safe and flexible placement than investing the funds as shares or loans in new enterprises, joint ventures or other companies.

The Embassy cannot agree with Grameen Bank's view that the grants from donors shall not be reckoned as equity in Grameen Bank's balance, constituting part of the real value of the shares of the owners of Grameen Bank. Obviously these funds have not been regarded as debt, so they must have been regarded as equity. The funds could have been considered, at least partly, as conditioned equity, but they were not considered as such by Grameen Bank management, since the funds were transferred without consultation with, or even information to, the donors.

After having received the information from Grameen Bank the issue was taken up with the Norwegian Agency for Development Cooperation (NORAD) in Oslo. NORAD has concluded that the agreement between Grameen Bank and Grameen Kalyan concerning the transaction is contrary to the conditions, intentions and texts of the agreements of 14.12.93, 30.11.94 and the addendum made by exchange of letters of 17.09./27.10.97. NORAD has therefore taken the stand that the agreement between Grameen Bank and Grameen Kalyan should be cancelled in its

existing form, the ownership of the funds be transferred back to Grameen Bank and the revolving fund for house loans be reinstated.

Norway supported also Grameen Bank Phase III (1989-93), based on an agreement signed on 15.01.90. Of the total support NOK 24.5 mill was for revolving fund for general and collective loans and NOK 40.3 mill for revolving fund for housing loans. Although the agreement for this support has been terminated, and there is no clause in the agreement about continuation of the operations of the revolving funds after the project period, it is obvious that the understanding and intention have been that these funds should contribute to build up a financial basis for Grameen Bank to continue lending to its members according to its lending policies also after the project period. Norway further supported Grameen Bank through four agreements during 1988-92 with NOK 94.25 mill for rehabilitation after natural disasters. The major share of this support was also for housing purposes, given as loans with reportedly very high repayment records. One would expect these repayments to be recycled for housing purposes under the revolving fund.

Although there might be a doubtful legal basis for demanding it, the Embassy would prefer to see the commitment to continue the lending to Grameen Bank's members documented by retaining the donated funds as revolving funds under Grameen Bank's ownership. This includes all funds from Norway given for the purpose of onlending under the five agreements mentioned in the paragraph above.

The Embassy reiterates the conclusion that the transfer of funds to Grameen Kalyan is contrary to the agreements between Norway and Bangladesh concerning support to Grameen Bank, and will request you to take steps, as agreed at the meeting 16.03.98, for the transfer of all donor grants for revolving funds back to the ownership of Grameen Bank, and have the revolving funds reinstated, without any loss for the owners and members of Grameen Bank.

The Embassy is open for further discussions and clarifications on this issue, as you might deem useful, including participating in meetings with the Grameen Bank management.

Yours sincerely



Hans Fredrik Lehne
Ambassador