

# **Future of Grameen Bank: My Fears**

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## **Formation of the Commission of Inquiry**

I was very saddened by the news. I am sure many others, including the poor women who are the owners of the Grameen Bank, felt the same as I did. 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 their report.

We have set a record through formation of the Commission of Inquiry on the Grameen Bank which is the only Nobel Prize winning organization in Asia, among only 20 winning organizations in the 110 years history of the Nobel Prize. It will remain an unforgettable episode in our history!

But why Commission of Inquiry on the Grameen Bank?

What has caused the government to be dissatisfied with Grameen Bank? Is it Grameen Bank's innovative modus operandi, and its system of management? It is this that has brought international recognition to the Bank as an institution dedicated to improving the quality of life of the poor. Or has the Grameen Bank caused a large-scale catastrophe for which a Commission of Inquiry has become necessary? What issue of public importance has Grameen Bank caused that requires an enquiry? In the past all enquiry Commissions that the government has formed have been done after a large-scale mishap has occurred and which had raised various questions in the minds of the people. The law regarding formation of an inquiry Commission was designed to deal with this type of unusual situations.

This Commission has been tasked to submit its opinions/recommendations 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 to find out the causes and offer solution after an incident. But this time, after reviewing its activities, its philosophy and its operational details, the Commission has been asked to determine the future path of a distinguished organization, and that too, from the very beginning of the organization. It will be difficult for the Commission to complete this huge task with its limited manpower and facilities. If the Commission gives a wrong advice due to the constraints then the consequences might be terrible for the poor people of Bangladesh.

This type of task is usually given to the best researchers of the best research organizations as a long-term project. To prepare such a report it is necessary to have intensive consultation with the people who were behind the designing and setting up those institutions, those who have managed them over years, those who are the beneficiaries of these institutions, people who are familiar with designing and managing such institutions.

After going through a long process of interaction and sifting through all the data, an in-depth analysis is made. When the report is finalized it is submitted to the board for its review. The board goes through its own process of reflection to pick the recommendations they want to implement. Gradually the suitable recommendations of the report are carefully implemented, without impeding the ongoing function of the organization. Given the time limit of the Commission, it is clear that they cannot go through such a process.

### **Grameen Companies**

In the terms of reference of the Commission the government has raised many questions about all the companies, which have the word "Grameen" in their names. One can sense from these questions that government assumes that these companies have been established under the ownership of the Grameen Bank. But in reality these are independent companies with no ownership link to Grameen Bank. As a result most of the questions become irrelevant. I have said many times that it is very easy to get the answers to these questions. All one needs to do is to commission an internationally reputed audit firm. They can easily find out from the history of the bank's financial transactions whether the bank has invested in any of these companies. Why the need of forming a full-fledged inquiry Commission? Why such a big initiative from the state to find out whether the Grameen Bank is the owner of these companies, and whether it established these companies?

I have established many companies on my own initiative. I have been using the word 'Grameen' in their name as an identifying mark of a new class of businesses created to solve social problems. Most of these companies are 'not for profit' companies. According to the law, these companies do not have any 'owner'. Most of these companies 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 companies. These companies 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 companies since the idea of ownership is not relevant to these companies. Some of these companies are "for profit" companies, but all of these are themselves owned by "not-for-profit" companies. Again, there is no scope for Grameen Bank, which is a "for-profit" company, to become the owner of these companies.

Grameen Bank has not established any company itself since the Grameen Bank law does not allow it to establish any company.

There are reasons behind the creation of these companies. When I started to work with poor people I started noticing many other problems besides the need for credit. I saw problem of education; so I created Grameen Education. I saw health problem; I created Grameen Kalyan (Well-Being), marketing problems (Grameen Check), agricultural problem (Grameen Krishi or Agriculture), fisheries and animal farming problem (Grameen Fisheries), technology problem (Grameen Telecom, Grameen Communications), insurance problem( Grameen Byabsa Bikash), electricity problem and problem of cooking stoves (Grameen Shakti), and so on.

Each of the companies I created was designed to address a specific problem of the poor. It became a habit for me to create companies to address a social problem. I wanted to make sure that each initiative to solve a problem would become self-reliant. It should be able to operate with its own earnings; it must not be financially dependent on others. Also, I believed that each company should be structurally independent so that if one company goes down, it cannot pull down the others with it.

I tried to solve problems using innovative business ideas, new concepts and new methods. Several of these companies have gained global reputation for their path-breaking work. For example, providing mobile phones to village women through Grameen Telecom, has opened up a whole new thinking in marketing among all the telecom companies of the world. Grameen Shakti has become the global leader in bringing off-grid electricity based on solar power, in the rural areas at the household level.

Not only has Grameen Shakti showed the way to do it, it demonstrated how to scale up in massive way. Grameen Shakti sells more than a thousand solar home systems per day. It will reach one million homes in rural Bangladesh with solar electricity, by October this year. All this is done in a sustainable way. Everybody pays for it, and the company covers all its costs. No one has personal ownership of these companies. These are almost like a 'trust'. The sole purpose of their existence is to solve problems of the

poor. None of these companies was created for anyone to earn personal profit. There is no scope for personal profit from any of these companies.

I do not own share in any Grameen company or any other company anywhere. I do not own any share in Grameen Bank. So there was no scope for me to get profit from these companies, in the past, or at present. I have never received any allowance or honorarium for attending or conducting any meeting of the board of any of the Grameen companies.

Another item in the 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’s Act. The rules of formation and restructuring of the Board of Directors are clearly stated in the laws and constitution of the registered company. Common inheritance law governs how the inheritance of the shares of a company will be determined. It is customary that shares of father are inherited by children. But as there is no possibility of owning any share in the Grameen companies (except in Grameen Bank) so the issue of inheritance of ownership is irrelevant here. It will not be surprising if questions rise in public mind as to the purpose and usefulness of government’s high-powered initiative to investigate into the "succession rules for ownership" in Grameen companies, 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 the Grameen Bank and other companies with Grameen names. And then, it is not understandable why the government had to be so interested in the succession rules in a private company (even if there are private share-owners in these companies) to the extent that it found it worthwhile to form a Commission of Inquiry to investigate into it. It must surprise everybody to see that a whole Commission has been put to use their precious time to dig out the relationship which never existed at the time of creating the companies, nor at present. Audit teams from the Central Bank never mentioned it in their yearly audit reports and the Awami League government did not raise any question about it in their previous five year term. Specially knowing fully well that the modus operandi and recommendations of this Commission would be scrutinized thoroughly, and debated rigorously for many years to come at home and abroad.

## **Backdrop**

Grameen Bank started its journey in 1976 in the village of Jobra in Chittagong. I lent 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 given a new category of name to signify its special status. It was called 'Krishi Bank, Experimental Grameen Branch.'

In 1979, it became a central bank project with a bigger territory to cover. This was done because of the interest taken by the Deputy Governor of the Central Bank, Mr. Gongopadhaya in the proposal that I had submitted to him. From a Krishi Bank project it then became a project of the central bank. Under the name of Grameen Bank Project, this project was dedicated to bring the whole Tangail district under microcredit programme. All the state-owned banks participated in the project.

I set up the project headquarters in Tangail and moved to Akur Para to look after the project. I stayed there from 1979 to 1982. When it was decided to expand the coverage of the project to five districts, I had to shift the headquarters to Shyamoli, Dhaka, at the suggestion of the central bank, although I was very reluctant to have my office in Dhaka.

While I was looking for a way to move from project status to a more institutional foundation, I got support from the new finance minister, Mr. Abul Mal Abdul Muhith, who had just assumed office. He responded to my proposal to give it an institutional shape by making it a formal bank. In 1983, with the finance minister's support and approval from President Hussain Mohammad Ershad, 'Grameen Bank Ordinance 1983' was created. The Grameen Bank project became 'Grameen Bank'.

But I was not happy with the way it was done. I raised strong objections against the new laws regarding the structure of ownership. It gave 60% ownership to Government making it a government bank. I refused to go ahead with this ownership structure. Finance Minister assured me that he would soon change the ownership to give 75% share to the borrowers. The task was carried out by his successor, Mr. Syedduzzaman on July 8, 1986. He amended the law giving 75% of the ownership to the borrowers, and 25% to the government. To be consistent with the new ownership structure, he changed the composition of the board. The board would consist of 9 representatives of the borrowers, 3 from the government and the Managing Director (MD) as an ex officio member. Another amendment was introduced on July 31, 1990. This enabled the board to appoint the MD, instead of the MD being appointed by the government. Since 1990 Grameen bank has been operating in this manner.

At present, the borrowers 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 because borrowers kept adding more equity as the bank grew, but the government did not inject any more money. Each share costs Tk 100. When the amount of savings of a borrower exceeds Tk 100, she can buy a share worth Tk 100. Each borrower had always done that. As a result, the percentage of shares of the borrowers has been steadily rising. If this trend continues, the relative share of the government will keep becoming smaller.

The initiative that started with Tk 856 is now a bank that has given loans worth USD 1.5 billion to 8.4 million borrowers. At present, borrowers have nearly a billion dollars in their personal savings accounts. This amount keeps increasing every day. They have their own pension fund. Grameen Bank has given education loans of nearly USD 40 million to the children of the borrowers for higher education.

The reason why Grameen Bank could become a strong and successful organization is because the bank had a good legal structure since 1990 that delegated all its management and decision making power to its board of directors.

People who think Grameen Bank is like any other bank, that the only difference is that it gives small loans, end up with wrong conclusions. They miss the fundamental issue. It is the only bank in the world that runs without taking any collateral whatsoever. No legal papers are needed in this bank to take a loan. The bank delivers the service at the doorstep of the borrowers.

If the borrower or her husband dies, then the balance amount needs to be paid; remaining amount is written off. If a borrower dies, her family gets a grant for burial expenses. Branch manager has to be present at the burial prayer. The children of the borrowers get loans for education. Every borrower is the owner of the Bank. This system is quite the opposite of the mainstream banking system. That was why Grameen Bank succeeded in bringing banking services to poor women. This is why Grameen Bank concept attracted so much attention from the world.

### **Terms of Reference of the Commission of Inquiry**

Considering the range of the Commissions' mandate, one fears that the government wants to bring changes in the legal structure and management system of Grameen Bank. The Commission's TOR includes:

- a) To identify the strengths, weaknesses and constraints in the operation of Grameen Bank since its inception till 2010.
- b) To recommend measure for ensuring good governance in the Grameen Bank, especially focusing on accountability of management and transparency of operations.
- c) Organize the ownership of Grameen Bank, and comment on board representation and qualifications necessary to sit on the board.

What will be the basis against which Grameen Bank's strengths and weaknesses are measured?

I am sure questions will be raised in the minds of people over the section in the TOR that refers to Grameen Bank's strengths, weaknesses and constraints. On what basis will the Commission make their judgment? Will they use the rate of loan recovery, interest

rate, profit or loss of the bank, number of borrowers served by each staff, quality of MIS, application of information technology in the bank, administrative strengths, benefits received by the staff of Grameen Bank, savings, yearly growth, how much the borrowers have been able to save, and so on, to judge Grameen Bank? Or will they use some other basis for their judgment? Against whom will they compare Grameen Bank to formulate their opinion? Will they fix on some imaginary qualification to form their judgment, or will they compare with other microcredit organizations in Bangladesh to understand and identify Grameen Bank's ranking? Or will they compare it with other commercial banks—such as Krishi Bank, Sonali Bank, Kormosangsthan Bank or some international bank?

The Commission will surely understand that if they do not base their judgment on reality and give their recommendations based on facts; their report will not be accepted by the people.

Bangladesh Bank audits and inspects Grameen Bank on a yearly basis. The Central Bank has a specific department for this purpose. They have been carrying out this task for many years. They are aware of all information about Grameen Bank—good and bad. Their honest and capable officers have for many years visited the branches of Grameen Bank. They have visited the head office, visited numerous departments to question and assess the state of affairs of Grameen Bank. They have not ever raised any questions, to which Grameen has not provided a satisfactory answer. Year after year they have communicated to us in writing that they do not have any unresolved issue pending.

On one occasion Central Bank raised an important objection.

In 2000, the audit team from Bangladesh Bank raised question on the issue of my retirement. We explained to them that Grameen Bank operates on its own rules and regulations, and within the rules of Grameen Bank, there is no fixed retirement age for the Managing Director. Bangladesh Bank asked us to come with all of our documents; they would review and settle the issue in a formal meeting. Six senior officers, 3 from Bangladesh Bank and 3 from Grameen Bank, met on this issue on January 15, 2001. At this meeting it was decided that if Grameen Bank provides copies of relevant documents to Bangladesh Bank, then the issue would be consider resolved.

The meeting was recorded and the minutes were signed by all participants. Grameen Bank provided the documents asked for. When Bangladesh Bank accepted that the issue had been resolved, my age was 61 years and 6 months. Even though my age was more than 60, and on reviewing the documents, Bangladesh Bank did not feel that there were any unresolved issues. In the intervening years, in their annual audit reports, Bangladesh Bank did not raise this matter ever again.

It was not that Bangladesh Bank forgot to raise their questions on this matter; they had done their job professionally. We gave our explanation, and they were satisfied with it. The matter rested there until it was raised in 2011, with no reference to the history.

Besides Bangladesh Bank, Grameen Bank is audited and examined on an annual basis by two of the most reputed audit firms of the country. They have repeatedly informed us in writing that our accounts and management practices are at par with international standards.

The Commission has been asked to provide recommendations to ensure good governance, especially accountability of the management and transparency at Grameen Bank.

After so many years of good work, after so many audit reports, after so many research reports, winning so many prizes, and achieving so much honour, when questions are being raised about good governance, transparency and accountability at Grameen Bank, a lot of people, just like me, will become very sad. There are so many organizations which have management qualities of just the opposite kind. But somehow, they are not the ones the government is choosing to pay attention to. That government has chosen to investigate Grameen Bank is causing surprise to a lot of people. Upon reading the TOR, people will wonder if there are other meanings to the words put in the TOR.

It is unfair to put such a great burden on the four honorable members of the Commission. If they are not familiar with the world of microcredit, which I assume they are not, then the task becomes even more complicated for them.

Even though microcredit was born in Bangladesh, it has now spread throughout the entire world. There is no country in the world, rich or poor, where microcredit is not operational. And as a result, throughout the world, there are a lot of experts on microcredit.

There are departments devoted to microcredit at a lot of universities around the world; a lot of research institutes are dedicated to researching microcredit. A lot of publications, in many languages, focus on microcredit. A lot of people have become very well known around the world for managing microcredit programs. Bangladesh is a leading country in the world on microcredit. There are a lot of people in Bangladesh who have gained respect and fame for their work on microcredit.

Much research has been conducted on Grameen Bank, nationally and internationally, numerous research papers have been written, and a lot of research reports have been published in research journals.

Bangladesh Bank is responsible for overseeing the activities of Grameen Bank. Besides this, there is a separate government regulatory body to oversee the activities of

microcredit institutions called the Microfinance Regulatory Authority. P.K.S.F. has become very experienced in providing financing for microcredit institutions. It is very difficult to understand why, when there are so many researchers, so many administrators, so many experts, why responsibility has been assigned to persons who probably have no exposure in microcredit.

Judging by the TOR, one begins to wonder whether the government wants someone to tell them that Grameen Bank is a poorly managed institution, needing overhauling. For some reason government may feel that Grameen Bank should not continue operating the same way as it does now. The government wants to run it in its own way. The government is perhaps looking for an opening to introduce its own ideas into the operation of the bank.

Under the current legal framework there is no scope for the government to do that. Under the present law the board, majority members of which are representatives of the borrowers, make all the decisions. In order for the government to make decisions, board structure has to be changed, i.e. the ownership structure must be altered. Perhaps the government is hoping that the Commission will come up with such a recommendation. If the ownership of the bank changes, the board changes; and as a result, everything else changes. Grameen Bank changes.

There is another way. The government can amend the laws without changing the ownership structure in such a way that the board doesn't have the final decision making power anymore. The board can remain as it is, but it will require government consent for implementing its decisions, and government can direct the bank on any issue.

This is what I get worried about when I read the TOR. I hope my concerns will be proved wrong. But I think I should bring up these concerns to everyone before it is too late. This is the reason why I am drawing your attention.

On 23 April, 2012, a written statement from the finance ministry published in the media, reassured the people that, "No steps have been taken to establish government control on Grameen Bank and no such steps will be taken in future". This statement relieved us from our worries. But only three weeks later when the TOR of the Inquiry Commission was announced the worries came back with much stronger force. This time it looked menacing and real.

### **Grameen Bank's Ownership**

From the beginning, the poor women have bought shares of Grameen Bank with their tiny savings. They have been working tirelessly to keep the bank strong, because they know that this is their bank. But now they are very upset that their bank's ownership is questioned by the government. A shocking question has been placed in front of the

Inquiry Commission. The 8.4 million poor women, the people of the country, will anxiously wait for the answers given by the Commission. All those interested in women's empowerment all over the world will also be waiting them.

The Commission was also asked to provide recommendations on the qualification requirements to be a board member. This is a very unfortunate question. They are owners of Grameen Bank—this is their fundamental qualification. Is the government thinking of creating an elite class among the poor owners? Eighty percent of Grameen Bank owners are illiterate. Until now, the leadership of members who were elected, in the past was never questioned by anyone who worked closely with them. Highly reputed personalities like Professor Iqbal Mahmud, Professor Rehman Sobhan, Dr. Akbar Ali Khan, Professor Kaiser Hossain, Mr. Tabarak Hossain have served as Chairmen of Grameen Bank board with great love and dedication. I can confidently say that none of them would express that the borrower members in the board were any way less eligible than other members of the board.

On behalf of these members and borrowers, Ms. Taslima Begum from the village of Pirgacha in Chapainawabganj received the Nobel Peace Prize in Oslo, with her head held high, with an elegance and confidence comparable to any other person who ever received this prestigious Prize before her. She gave her acceptance speech in a very inspiring Bangla at the Nobel Prize giving ceremony. Bangladesh Television telecast the programme live. I think the ripples she created in the hearts of Bangladeshi women reverberate to this day. Has the Commission been formed to ignore the Taslimas of Bangladesh? One cannot but wonder what is on the government's mind on this very crucial question.

### **Grameen Bank's future will be at stake**

On 2 October, 1983 Grameen Bank was launched in an open-air ceremony at the sports ground of Jamurki High School, Tangail at Grameen Bank project's women gathering. At this gathering, speeches were delivered by the then Finance Minister and by the women borrowers of Tangail, and not by any other government officials.

The fact that Grameen Bank is a poor women's bank—this was never forgotten. This bank never deviated from its mission throughout its journey from Jobra to Mirpur.

Taking away the ownership and the decision-making power from the poor women would derail Grameen Bank from its mission. Taking this step would take away the very essence of Grameen Bank. The ownership, the participation of the borrowers in the decision making process, the management structure, and the methodology is what made Grameen Bank a world class organization. That winning formula cannot be sacrificed by any means.

This organization is self-reliant financially. Grameen Bank does not take any money from the government or from the donor organizations. This organization has created a new dimension in banking practice. Many bankers around the world are interested to learn from this bank. People look at Grameen Bank with great admiration for its contribution in the world of banking. Globally it has created a positive image of Bangladesh. We expect the government to handle Grameen Bank issues with the care and thoughtfulness it deserves. Since this is an organization of national pride, there should be national consensus around Grameen Bank.

It is difficult to believe that the Commission will make recommendations that will help to realize the dreams of thousands of Grameen Bank workers and its million borrowers, that it will not recommend any steps, which will put the organization at peril.

I hope the Commission will realize that Grameen Bank's future will be at great risk if by changing the legal framework of Grameen Bank, the governments' role is increased.

To imagine Grameen Bank as a government bank is itself a scary thought. Grameen Bank is an institution built on strict discipline. If Grameen Bank is transformed into a government institution, that discipline will start eroding very fast. Grameen bank has twenty-four thousand dedicated, hard-working employees who travel through the narrow village roads, whilst carrying at least thirty to forty thousand Taka in cash. One can wonder, how much of this money will be deposited with the bank, and how much of it will vanish into thin air when its administration and supervision become weak. Paying bribes for everything may become routine reality—paying bribe to get a loan, paying bribe for buying postings and promotions, paying bribes to enter into a Grameen Bank group, etc. may become the order of the day. Women may no longer be majority of the borrowers any more. These are all nightmares. Just as dreams can become reality, nightmares too can become reality. We must take firm steps so that this nightmare does not get a chance to become a reality.

In the past, poor management and allegations of massive corruption led to the privatization of the state-run enterprises. In that background, the thought of Grameen Bank going under government management is a frightening thought.

Starting from the Grameen Bank headquarters in Mirpur to each individual rural 'centre', the institution works like clockwork. If the government's management style is employed at Grameen Bank, then, the hard-earned reputation of the bank, earned over the past decades, will disappear in the blink of an eye.

The people of Bangladesh, and in particular, the poor women owners of Grameen Bank, surely do not wish to see such a thing happen. The children of the Grameen Bank borrowers, especially those who had taken student loans and are now doctors and engineers, and other professionals, surely do not want to see the Bank's ownership and

management handed over to the government. If we the nation as a whole, can convince the government that the decision to change the legal structure of Grameen Bank will not do any good to the nation or to the poor, then we can prevent it. We must express our concerns to the government. All over the world Grameen Bank is Bangladesh's brand name. We must not tarnish this brand name.

Regardless of your political affiliation, profession, age or any other circumstance you may find yourself in, as citizens of Bangladesh we can make an effort to convince the government that changing the legal structure of Grameen Bank would most definitely be a mistake. I request everyone to come forward and take initiatives in every way possible. Those who believe in women's' empowerment and financial emancipation of the poor, I request you to become involved in this campaign. I am sending a copy of this message to every Grameen Bank branch, so that the borrowers are well briefed and they can make efforts to protect their ownership of the bank. They may approach the local political and social leaders to bring pressure to the government to stop moving in the wrong direction.

We must all work together to protect Grameen Bank. We must ensure that Grameen Bank continues to be owned and governed by poor women and the bank continues to move forward to reach its goal. If you are concerned about the situation as much as I am, then I urge you to do something to keep Grameen Bank safe and strong.