

## **Enclosure 2: Agreements relating to Norwegian support for Grameen Bank**

### **Phase IV**

Norway concluded two agreements with Bangladesh relating to support for Grameen Bank during Phase IV (1993–1997). The first agreement was signed on 14 December 1993, and related to NOK 30 million which were to be issued as housing loans to members. The second agreement was signed on 30 November 1994, and involved NOK 120 million. Total = NOK 150 million.

The agreement left no room for doubt about the fact that the funds provided by Norway for the issuing of housing loans were supposed to remain in a revolving housing-loan fund and continue to be loaned out for this purpose only. “The amount of the Grant used for housing loans will be used as a revolving fund”.

In its memorandum dated 10 February 1997, the Embassy pointed out that the funding provided for revolving housing-loan funds would obviously not be loaned out at all times, as unallocated funds were deposited in other banks. The revenues from these deposits were part of Grameen Bank’s strategy for achieving profitability.

The Embassy succeeded in securing the return of the entire amount that had been granted for revolving funds under the Phase IV agreements, NOK 106 million in total.

### **Phase III**

The agreement with Bangladesh relating to support for Grameen Bank’s Phase III (1989–1992) was a joint financing project coordinated by means of an international development assistance consortium. The Norwegian support totalled NOK 100 million.

Following the contractual completion of Phase III, there was no further contractual reporting or follow-up. Accordingly, the Embassy and Norad concluded that there was no legal basis for a claim for annulment or amendment of the agreement between Grameen Bank and Grameen Kalyan.

The Embassy nevertheless succeeded in securing the return of the entire amount, totalling NOK 64 million, which was used for revolving funds. The result of the negotiations was described as a “compromise” because Grameen Bank had initially not wanted to return these Phase III funds.

### **Phase II**

According to a memorandum dated 10 February 1998, Grameen Phase II support totalling NOK 55 million was channelled through the Bangladeshi Ministry of Finance (MOF), which then loaned the funds to Grameen Bank at an interest rate of 2%. Grameen Bank’s obligations regarding the use of these funds were regulated by a separate agreement between MOF and Grameen Bank.

We have no documentation showing that these funds were transferred to Grameen Kalyan. To date, Norad has been unable to locate this agreement.

### **Other agreements with Grameen Bank**

In addition to the agreements dealt with above, Norway has provided Grameen Bank with support totalling NOK 91,450,000. This amount relates to four additional grants for rehabilitation following natural disasters in 1988 and 1991. The largest component was earmarked for “emergency housing”. The funds allocated to this component were used to provide housing loans to members of Grameen

Bank who were affected by the natural disasters, and a repayment rate of almost 100% was reported. These funds are assumed to be included in the total revolving housing-loan funds covered by the agreement between Grameen Bank and Grameen Kalyan. The agreement did not specify what was to be done with the funds after the assistance period. This type of relief support normally takes the form of one-off payments. The fact that Grameen Bank revolved these funds by issuing loans and demanding repayment was considered positive, as this increased the effect of the development assistance. However, the agreements did not contain a condition requiring this. On the other hand, the agreement relating to this support contained no clauses requiring that the funds should remain in revolving funds after the end of the agreement. The Embassy therefore had no legal basis for demanding the return of these funds.