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**Stocks**

DGEN ▲ 0.90%  
7,463.05

CSCX ▲ 1.07%  
14,033.92

**IDLC Index**

IDLC 50 ▲ 0.73%  
7,443.33

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**Asian Markets**

MUMBAI ▼ 0.67%  
20,203.34

TOKYO ▼ 2.09%  
9,388.64

SINGAPORE ▼ 0.44%  
3,149.36

SHANGHAI ▲ 1.23%  
2,841.41

**Currencies**

	Buy Tk	Sell Tk
USD	69.65	70.65
EUR	94.82	99.39
GBP	108.91	113.88
JPY	0.83	0.90

SOURCE: STANDARD CHARTERED BANK

**Commodities**

**Gold** ▼  
\$1,348.50  
(per ounce)

**Oil** ▼  
\$81.43  
(per barrel)  
(Midday Trade)

SOURCE: AFP

**Contact Us**

If you have views on Star Business or news about business in Bangladesh, please email us at [business@thedailystar.net](mailto:business@thedailystar.net)

## Uniform interest rate looms for microlenders

MD FAZLUR RAHMAN

The Microcredit Regulatory Authority (MRA) will announce next week a uniform interest rate for microfinance institutions, officials said.

"MRA will give a cap on lending rates and some slabs," said Lila Rashid, a director of MRA. She, however, did not say what the maximum rate would be.

Currently, there is no cap on the interest rates. In 2009, Microfinance Transparency, a US-based agency, found the effective rate of interest in Bangladesh at 18.75 percent to 51.68 percent.

About 75 percent MFIs charge effective interest rates between 31 percent and 40 percent, while 4.5 percent charge over 40 percent, it said.

However, a committee to recommend on the rates found the effective rate of interest at a minimum of 24 percent and a maximum of 41 percent if payments on savings and insurance made during loan commissioning are not taken into account.

The rate is between 22 percent and 85 percent when payments on savings and insurance are considered, Lila Rashid said.

Some MFIs operate after borrowing from banks at different rates. Some receive donation where no cost is involved, while the others get fund from Palli Karma-Sahayak Foundation (PKSF), subsidised by the government, she said.

"The cost of borrowing is not same, but they almost charge the same rates."

Leading MFIs, however, said less than 15 percent flat rate of interest would not be financially viable for most micro-lenders. They said many MFIs have already

voluntarily brought down the cost of borrowing to 12.5 percent to 15 percent flat rate, with effective interest rates ranging between 25 percent and 30 percent.

"Many will not be able to run their business with less than 15 percent cap," said Md Shafiqul Haque Choudhury, president of ASA, a leading microlender.

Currently, around 800 MFIs now operate in Bangladesh, catering to over three crore clients. Most of them charge between 12.5 percent and 15 percent flat rate, or 28-30 percent effective rate, industry people said.

Shameran Abed, programme manager (microfinance) of Brac, said he does not think MRA should cap the interest rates.

"MRA should look at all costs including cost of fund, administrative cost and 'loan-loss' associated with running a venture before capping the interest rates," he said.

Abed said the regulator should also take into account the current and future costs impacted by rising inflation, which was 7.31 percent in 2009-10.

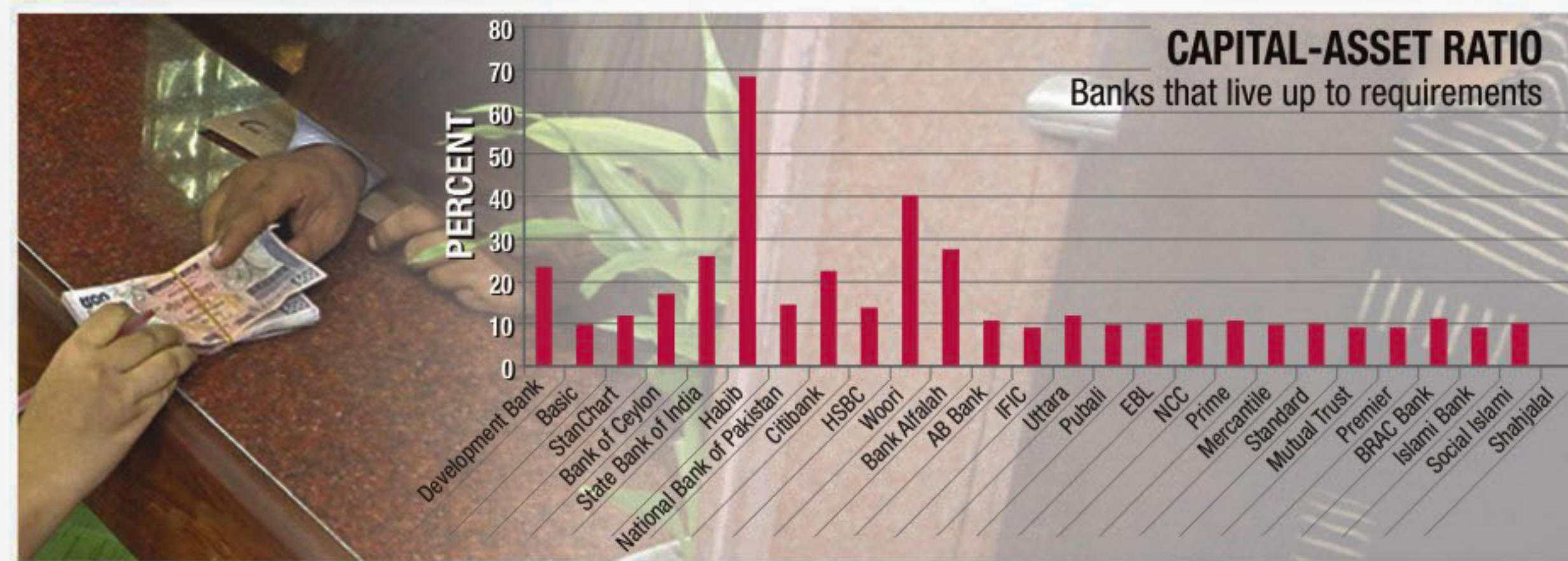
Brac has 6.2 million borrowers and outstanding loans of over Tk 4,500 crore.

Abed said most of the MFIs borrow from banks at 11-12 percent interest. "Our interest rates are still low compared to costs."

He said, if the cap is set at less than 15 percent, many lenders will focus on big loans to reduce their operation costs, and so small borrowers will face problems in finding loans.

Pranesh Chandra Banik, deputy director of BURO Bangladesh, another microlender, said although most of the MFIs started with a 20 percent flat rate, they have brought the rate down to around 12 percent now.

## BB nudges banks to hike capital reserves



REJAUL KARIM BYRON

Twenty-one banks will have to minimise their capital shortfall by 1 percent or more of their risk-weighted assets by June next year in line with the new requirements set by the central bank.

However, 26 banks have no capital shortfall, according to Bangladesh Bank (BB) data.

Higher minimum capital requirements are meant to make commercial banks better able to withstand a wave of loan defaults.

Former BB governor Salehuddin Ahmed said a strong capital base helps a bank play a positive role in the economy.

But he cautioned that it would not be proper to put pressure on the banks to increase their capital reserves overnight. "They should be given time."

The risk-weighted assets are the total assets of a bank, with the value of each asset adjusted by a factor that reflects its risks.

The earlier rules had made it mandatory for the banks to maintain 8 percent capital reserves against their risk-weighted assets by June this year; they will have to maintain 9 percent by June

next year and 10 percent by June 2012.

On the basis of the June 2010 requirements, the central bank reviewed the banks' capital against risk-weighted assets, and found that 21 banks will have to maintain 9 percent capital reserves by June next year.

The BB also found that the capital of seven banks is equivalent to 5.95-7.49 percent of their risk-weighted assets, while three banks -- one state-owned, one private and one specialised -- had negative capital.

The central bank held one-to-one meeting with the banks that fell short of the 8 percent requirement. The BB also asked them to meet the deficit by the time they come up with the September quarter performance.

The capital reserves of 11 banks were equivalent to 8.02-8.94 percent of their risk-weighted assets. Of these banks, one is state-owned and the rest are private.

Central bank officials said they would monitor the banks every quarter to see if they are doing enough to live up to the requirements.

Of the 26 banks, some have 10 percent or more risk-weighted capital.

The foreign banks have about 68 percent risk-weighted capital.

Bangladesh's international trade has increased much, said a BB official, adding that if the banks have capital shortfall, their image abroad will be affected and business will also suffer.

He said the central bank is continuously pushing the banks so they can meet the capital requirements quickly. Salehuddin Ahmed said, if any bank has adequate capital, it can offer big loans to a single borrower.

The banks do not need to form syndicates with other banks for providing loans to a good borrower, he added.

Ahmed said if the capital base of a bank is strong, it will not need to bear extra costs or ensure a third-party guarantor while opening letter of credit with foreign banks.

Since the capital base of the Bangladeshi banks is weak, no foreign bank wants to accept L/C without guarantee from other foreign banks, he said.

He also said some banks have big bad loans for long, and they cannot recover overnight. They should be given time to maintain the capital requirements, he added.

Advertorial

**WEICHAH POWER SERVICE IN BANGLADESH FOR 20 YEARS -- WEICHAH PRODUCTS PROMOTION AND REINFORCEMENT CONFERENCE 9th OCTOBER 2010 BICC.**

"Weichai power service in Bangladesh for 20 years", namely, the Weichai products Promotion and Reinforcement Conference 2010 was held successfully on time at Bangabandhu International Conference Center in Dhaka on 9th, October. On that day, Mr. Shajahan Khan M.P., Shipping Minister of Bangladesh; Mr. Zhang Xianyi, Ambassador of Chinese Embassy in Bangladesh; Mr. Lin Weiqiang, Counselor of Chinese Embassy in Bangladesh; Mr. Jiang Kui, General Manager of Shandong Heavy Industry Group and Deputy General Manager of Weichai Group; Mr. MAHBUB UDDIN AHMED (BIR BIKRAM), Chairman of Bangladesh Cargo Vessel Owners Association; MR. MOHD. MOSTAFA, Chairman of Mostafa & Co., Mr. A.K.M. ZAN -E- ALAM, M.D.; MR. NURUL ABSER RASEL D.M.D. of Mostafa & Co., attended the conference & delivered speech to the audience and all of them cut the ribbon together. Mr. Wang Fengyi, M.D. of Weichai Imp. & Exp. Corporation Presided the conference.

At the conference, Mr. Jiang kui, General Manager of Shandong Heavy Industry Group and Deputy General Manager of Weichai Group awarded the "Weichai Power Service Center" plaque to Mr. Mohd. Mostafa, Chairman & Mr. A.K.M. ZAN -E- ALAM, M.D. of Mostafa & Company. In Weichai's history in Bangladesh, this activity is in the largest scale and also it is an important step towards the Service Globalization of Weichai.

Mr. Jiang Kui, said that Weichai will take full advantage of this development platform of Bangladesh, and constantly develop and improve products that meet the characteristics of Bangladesh in the next 5 to 10 years, and gradually establish a products series to cover Marine engines, generator sets, construction machinery, new energy engine. A three-dimensional Service network will radiate all over Bangladesh. Dedicated, trained -professional technician team, ready to provide attentive technical support services, to achieve win-win development with Bangladesh.

During this ceremony, famous engine products of Weichai power such as Deutz series, WD615 series, WD618 series, 160 series, 170 series, CW200 series, New -Energy Engine series was exhibited. These products have entered the international markets for many years. Relying on a higher price advantage, and the constantly improving service networks, they are gradually accepted by overseas customers, particularly in South Asia, Southeast Asia, the Middle East, Far East, South America, Africa and other emerging market economies, which has become a more high visibility. The Establishment of Weichai Uniform Standards Service Center will give all of those Weichai series Engine a positive push to make service for Bangladesh economy better.

## Stocks defy warning

STAR BUSINESS REPORT

Stocks continued to rise for a second day, as telecom, non-bank financial institutions and energy companies led yesterday's rally.

The DSE General Index, the benchmark index of the prime bourse, gained 66 points, or 0.9 percent, to 7,463. The CSE Selective Categories Index, the key index of Chittagong Stock Exchange, rose 149 points, or 1.07 percent, to 14,033.

With the gain of the last couple of days, the market recovered the losses it counted two days ago following a warning of a 'disaster' from both the bourses.

But it is apparent that investors, who went for panic sales on Sunday, are defying the warnings.

Besides, stockbrokers said, the Securities and Exchange Commission is yet to give direction on loan adjustment time following a win over a legal battle on share credit.

The investors are anticipating a go-slow attitude from the regulator on credit adjustment issue.

The Supreme Court on Sunday stayed a High Court order that halted an SEC directive for merchant banks and stockbrokers to follow a net asset value based calculation for credit disbursement and loan maintenance.

## 150MW peaking power deal signed

STAR BUSINESS REPORT

North-West Power Generation Co Ltd and China National Machinery Import and Export Corporation (CMC) yesterday signed an agreement to set up a peaking power plant to produce 150 megawatts of electricity.

According to the agreement, the Chinese company will install the plant at Soyadabad in Sirajganj at a cost of Tk 962.5 crore.

The plant scheduled to be commissioned in May 2012 will primarily use natural gas as fuel and alternatively high-speed diesel (HSD) for generating power.

The Bangladesh government and Asian Development Bank will jointly finance the venture.

Toufiq-e-Elahi Chowdhury, an adviser to the prime minister, who attended the signing ceremony, said the government has signed agreements with different companies, agencies and departments to produce a total of 2,500MW of electricity.

"We will sign more agreements with other companies by the end of the year to produce another 1,500MW of power," he said.

State Minister for Power Enamul Haque asked the Chinese company to maintain high standards of workmanship in the project's implementation, which will help uphold the image of China.

Zhang Xianyi, Chinese ambassador, said he could see a lot of investments coming to Bangladesh, but the energy sector remains the bottleneck.

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