

# NEW AGE Business

## Bank rates lack transparency

*Claims Wahiduddin Mahmud*

**Dhaka, Wednesday  
August 12, 2009**

### **Staff Correspondent**

An eminent economist on Tuesday cast confusion over the interest rates charged by commercial banks and said monetary transactions maintained by the banks and their effective rates of interest remained fishy.



At the seminar on 'Microfinance Interest Rate and Transparency' on Tuesday, they pointed out that the microfinance had ensured access of a large number of poor to the formal financing, despite the controversies surrounding the higher interests.

Wahiduddin Mahmud, a senior economist and chairman of Institute of Microfinance, also underlined the importance of bringing transparency in the micro-credit lending rate and suggested that alternative financing for microfinance institutions to fund micro enterprises might help reduce the much-talked interest rate.

'There are questions about micro-credit interest rate but not about transactions of crore of Taka. For banks, it is the transactions, if not interest rate, which is the grey area. Transparency should be ensured to show the effective interest rate and method of transactions of the commercial banks,' he observed.

Presiding over the opening session of two-day seminar, the economist said the commercial banks followed fishy practices while rescheduling the loans of the 'big fishes'.

He also mentioned that there should be transparency in interest rates and overall operations of the microfinance institutions to prove their positive role and stop bad players from making windfall profits from hedge-financing business.

'There is no reason to hide and seek with lending rate. It will be slightly high because the MFIs have to reach the doorstep of the poor,' Wahiduddin said adding that interest rates must come down and the microfinance institutions should also

The Institute of Microfinance and the Micro-credit Regulatory Authority jointly organised the seminar at Palli Karma-Shahayak Foundation to discuss wide ranging issues of interest rates charges by microfinance institutions, mainly NGOs, and transparency in their operations.

The finance minister, AMA Muhith, addressing the inaugural session, said the interest rate had come down in recent years and would decrease further if they improve efficiency. He also stressed the need for containing cross-financing to save borrowers from indebtedness.

'The more micro-credit has expanded, the less the interest rate has been charged,' he said lauding the growth of the micro-credit in the country.

The governor of Bangladesh Bank, Atiur Rahman, explained a set of factors that should be taken into consideration for calculating interests rates. Such factors include inflation, cost of funds, administrative expenses, efficiency of operation, and cost of losses.

He recalled that today's Grameen Bank evolved based on a project of the central bank, which was almost rejected by the board of governors in view of its 'lack of financial sustenance'. 'What was valued eventually was the social benefits and professor Yunus rose to the occasion to meet the needs of the poor in the rural areas,' added Atiur, known to be economist of the marginalised people.

The executive vice chairman of the Micro-credit Regulatory Authority, Khandaker Muzharul Haque mentioned that they wanted to issue a cap on the interest rate but they failed to reach a consensus on such issue.

The interest rate charged by the microfinance institutions is said to be up to 30 per cent.

'The decision was taken to calculate the interest rates through stakeholders' meeting,' he said.

The amount of micro-credit disbursed annually has stood at around Tk 25,000 crore, said Baqui Khalily, executive director of the Institute of Microfinance.

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