IRIS Center
University of Maryland
Department of Economics

Secured Lending in Bangladesh

Creditors demand security when they make loans, usually in the form of immovable property—land and buildings. But even in advanced economies, businesses usually do not own any or enough land or buildings to offer as collateral for business loans. As a result, modern laws on movable property financing have developed, with the effect of increasing the amount of credit available and lowering interest rates.

In the last five years, many developing countries have begun to update and improve their laws on movable property financing. With the foundation of years of research and cooperation and months of drafting, IRIS's JOBS project presented a proposed new Secured Transaction Law for Moveable Asset Financing to the government of Bangladesh on June 21, a law which will improve access to business credit.

IRIS began exploring avenues for legal reform in this area in Bangladesh in 1998, when a report by IRIS staff member Patrick Meagher surveyed obstacles to business credit. In 1999, participants in a forum sponsored by JOBS and the Bangladesh newspaper the Daily Star, identified movable property financing as a target for policy reform advocacy. In October 2000, JOBS held a roundtable discussion in Dhaka on the need for legal reform with leaders in the business and banking sectors, business associations, and the chairperson of parliament's finance committee.

The roundtable discussion emphasized the need for a modern public information system, or a registry, with regard to security interests in movable property. Commercial law in Bangladesh is based primarily on a skeletal contract law that was adopted in 1872, which does not sufficiently support today's demands for finance of equipment, inventory, receivables, and other movable property. With proper supporting law, a registry can warn prospective creditors of conflicting claims to collateral, and establish a priority date for resolving competing claims.

IRIS organized a committee of Government of Bangladesh officials, representatives of the Bangladesh Institute for Law and International Affairs (BILIA) and IRIS staffers to develop a new law on credit based on movable property as collateral. The committee met in February and March, 2001 to draft the law.

At a jointly-organized JOBS/BILIA seminar on May 30,

IRIS/JOBS presented a new law on secured transactions for Bangladesh on June 21, 2001 to the Government of Bangladesh. Guests included Mary Ott, Deputy Mission Director, USAID/Bangladesh; Ambassador Waliur Rahman, Director of BILIA; Prof. Ali Ashraf, Chairman of the Standing Committee on Finance; U.S. Ambassador Mary Ann Peters; Dr. Akbar Ali Khan, Secretary, Ministry of Finance; and Reid Lohr, Director of IRIS/JOBS.

IRIS presented five concepts that could create an environment where financial institutions are willing to lend against moveable assets and borrowers have incentives to pay back those loans. These five concepts are: 1) Clear rules for creditor rights in moveable assets as collateral; 2) A collateral registry system for all moveable assets; 3) Rules for establishing priorities of claims in the event of competing creditors; 4) A clear, codified law to allow the taking of future moveable assets as collateral; and 5) Rules under which a creditor has the right to take possession or control of the collateral upon default.

On June 21, the final text of the law was officially transferred to the Government of Bangladesh in Bangla and English versions. The team also prepared a paper discussing how the law interrelates with other laws of Bangladesh.

The team will continue to promote the features and benefits of the law to build up broader support in public and private sectors.

For more on the project and a list of documents relating to the Bangladesh project (including the Meagher paper and the draft law), see *http://www.iris.umd.edu/adass/proj/BDsecuredlending.asp*.

2105 Morrill Hall, CollegePark, MD 20742 301.405.3110
info@iris.econ.umd.edu http://www.iris.umd.edu