

# Convergence Romania Financial Sector Modernization

## Special Projects Initiative Public-Private Steering Committee



## SPI Project on Rural Lending

### Project Objective

To prepare a set of specific recommendations (“secondary” rules and regulations and technical and organizational implementation steps) on the measures needed to be undertaken by the competent authorities, market participants and other institutions in order to remove the existing roadblocks to the development of the agricultural warrants-backed lending within acceptable risk parameters.

### Project Management Team

**Project Owner:** Radu Negrea, RBA Board Member

**Project Manager:** Claudiu Nicula, Manager, Raiffeisen Bank

**Deputy Project Manager:** Aurica Stoica, Advisor to Minister, Ministry of Agriculture

## Minutes

### Third Meeting

*May, 2007 – SPI Secretariat Office*

### **Participants:**

Claudiu Nicula, PM

Dina Ilie, Expert, National Bank of Romania

Alexandru Sorescu, Romanian Stock Exchange

Dumitru Sandulescu, Romanian Stock Exchange

Viorel Marin, National Grading Commission

SPI Secretariat (Ramona Bratu, Director for Bank Products and Services; Oana Nedelescu, Director for Analytics and Policy)

### **Agenda**

1. discussions on the public and private initiatives to be undertaken;
2. discussions on the next steps.
1. **Discussions on the public and private initiatives to be undertaken**

Participants appreciated the table prepared by the SPI Secretariat, based on the TAN's recommendations, on the public and private initiatives to be undertaken in order to re-launch the WDCs system.

The discussion emphasized the fact that MoA didn't do the necessary steps to implement the existing regulation in 5 years and a private initiative could be more effective. Participants outlined that the private system has 2 major weaknesses: the market prices and the WDCs recording. As there is no cereal market (under RCE), the indications on the market prices can be provided only by traders and a private system couldn't therefore have nation-wide information in order to determine relevant and reliable figures on the market prices. The WDCs recording could be accurate and reliable only in case it starts with an inventory of the operational capacities and of the stocks of cereals at a certain date for all the warehouses (licensed for functioning). For solving the two crucial issues, the MoA has to be involved. The already existing operational, staffing and reporting facilities within the Grading Commission could be used by MoA in order to facilitate the necessary interventions.

Participants agreed that the MoA should continue to play the leading part, while relying for implementation measures on the GC structure and cooperating with banks, RCE and insurers for ensuring the achievement of the WDCs system's objectives.

PWG outlined its recommendations for measures to be taken. In summary, they are as follows:

- **regarding the WDCs:** MoA should modify the secondary regulation in order to ask warehouses to report monthly to GC, in addition to the already reported figures, the average transactions prices. As for WDCs recording, MoA should decide to take action in order to have the inventory done on June 1<sup>st</sup> or 15<sup>th</sup> and the respective data reported to GC. The WDCs could thus be kept by the GC, which has the electronic records of the stocks that are graded. Banks and RCE should have an important opinion on the standard format of the WDCs, as they will have to lend based on these or to transact them. By consulting banks and RCE, their confidence in the WDC's value and validity would increase. The existence of an electronic register, accessible on line, would facilitate the lending and transacting activities;
- **regarding the licensing system:** it is possible that MoA not to have the staff and technical capabilities to organize the technical secretariat for the licensing commission, therefore this role could be played by GC. GC has the qualified staff in order to verify the compliance with eligibility criteria, to maintain the register, and to perform the bi-annual inspections. The GC's Board gathers representatives of MoA, MEF, etc and they could invite also banks and RCE. This composition would facilitate the activity of a Licensing Commission in GC. Participants don't favor a compulsory licensing of the warehouses;

- **regarding the inspection system:** MoA could assign the inspection mission for grading and licensing to the GC, while the inspection for verifying the depositing activities could be performed by the indemnity fund. GC has the qualified staff to perform these activities;
- **regarding the indemnity fund:** an indemnity fund should function in order to secure all the WDCs issued (to facilitate their use as collateral and especially their transacting on RCE), covering the risks of non-performance and of liquidity. MoA should issue regulations for the Fund's establishing and functioning. In order not to increase the cost of deposit services and of the crediting, the fund should be financed not out of the warehouses' contributions, but from other sources, such as:-a loan from the state budget, or a foreign loan; or by redistributing the amounts already allocated to other institutions and unused. The depositors' contributions could be envisaged after two years and only up to the amount used to pay under the guarantees issued. MoA/MoEF to appoint a supervisory body for the fund (as a NBFi it will be anyhow under NBR supervision);
- **regarding the RCE:** RCE will be comfortable with transacting WDC and will not ask anymore for guarantees in order to accept buying/selling orders;
- **regarding raising awareness on the benefits of the WDCs system:** all the involved parties could joint efforts in a national campaign.

## 2. Discussions on the next steps

SPI Secretariat informed on the letter prepared to be sent to the MoA, asking for a discussion with high-level representatives. Participants outlined that the PWG should prepare for this discussion a document containing the agreed recommendations and, in order to facilitate MoA's mission, the concrete proposals for amending the regulatory framework.

In order to prepare this document, the following actions are to be taken:

- SPI Secretariat will update the table with the initiatives to be taken by including the PWG recommendations with the respective arguments (attached);
- GC's representative will formulate the necessary amendments for the regulations;
- SPI Secretariat will send the letter to the MoA and follow up;
- PM/SPI Secretariat will draft the position document;
- PWG members will provide their input on the position document;
- PWG will meet and discuss the position document. **Tentative meeting date: June 22<sup>nd</sup>.**