

Convergence Romania Financial Sector Modernization

Public-Private Special Projects Initiative



SPI Project on Rural Lending Minutes

**Of the meeting with MoA representatives
July 12, 2007, 10 -12 am, MoA premises**

Participants:

MoA

Cornelia Harabagiu, Secretary of State.
Viviana Vasile, General Director, Rural Development Department
Miron Moldovan, Director, Budget Department
Reli Ștefănescu, Division Chief, Legal Department
Elena Sandu, Counselor of State Secretary

PWG

Radu Negrea, General Secretary, RBA, PO
Aurica Stoica, Director, Audit Department, MoA, DPM
Veronica Toncea, President, Rural Credit Guarantee Fund
Dumitru Sandulescu, Division Chief, Romanian Stock Exchange
Viorel Marin, President, National Grading Commission
Adrian Raducan, Manager, Raiffeisen Bank, replacing PM
Liesellotte Ene, Director, Corporate Department, CEC

SPI Romania

Ramona Bratu, Director for Bank Products and Services, SPI Secretariat

Meeting Objective

To present for MoA consideration the proposals prepared by PWG under the SPI project for revamping WDC system

Agenda

1. Discussions on the proposals prepared by the SPI PWG on revamping the WDC system
2. Next steps.

1. Discussions on the proposals prepared by the SPI PWG on revamping the WDC system

Mr. Negrea presented the importance of having a functional WDC system in Romania and banks' interest in developing rural lending under this framework, emphasizing the success stories that the banking community had in other issues that involved the co-operation with the state authorities and, at the same time, the positive example of neighboring countries.

SPI Secretariat delivered a short presentation on the Special Projects Initiatives and the initiation of the project on rural lending. SPI Romania is a public – private initiative of the National Bank of Romania, Romanian Banking Association, Ministry of Economy and Finance, supported by Convergence Program administered by the World Bank, for the financial sector modernization. The program is placed under the oversight of a five-person high-level committee (the SPI Committee) and orchestrated by a two-person secretariat (the SPI Secretariat), supported by the Convergence Program (Washington and Rome).

One of the projects undertaken under SPI Committee aegis refers to the development of the rural lending through the WDC system. The project is run by a public – private PWG that gathers representatives of the MoA, banks, NBR, RCGF, RCE, NGC and depositories.

PWG analyzed the current legal framework and situation and formulated some ideas on how things could be done in order to have a functional system in a short period of time:

- **regarding the WDCs:** PWG proposes that the compulsory content provided by the law includes the commercial parameters (such as gluten content for wheat). The market price indications could be obtained, in lack of a cereals market, by monthly reporting of depositories to GC. The WDCs evidence could be organized at the Indemnity Fund level, not by the MoA, but the first operation needed for this purpose is to make an inventory of the stock and operational capacities using GC infrastructure;
- **regarding the licensing system:** the proposal is that the verification of the depositories' compliance with the requirements to be performed by the GC (for the technical conditions) and by the Indemnity Fund (for the financial conditions);
- inspection system: the inspection activities be undertaken as mentioned above, by the two institutions;
- Indemnity Fund: in order to start operating and for a short period of time (3 years), the fund should be financed from the state budget, as the current legal framework doesn't stimulate depositories to apply for the license and, thus, to issue WDC and contribute to the Fund. MoA would have, at the same time, some of the activities that are their responsibility according to the current legal framework, performed by the Indemnity Fund.

A functional WDC system has benefits for all the stakeholders and especially for the producers. **Mr. Marin** gave a very illustrative example on how much the farmers lost last year because they had to sell their crops at harvest time in order to finance their liquidity needs instead of waiting for a better price and covering the liquidity shortage through loans based on WDCs (0.25 RON/kilo for wheat case).

Mrs. Toncea emphasized the disincentive for the depositories to contribute to the Fund (no compulsoriness by the law) and the effect of their contributions on the warehousing costs beared finally by farmers and that would distort competition on the market (the farmers would deposit their crops with un-licensed depositories, with lower fees).

MoA representative, **Mr. Moldovan**, outlined that the ministry proved in other occasions that it is willing to be involved in guaranteeing lending to agriculture, as the Rural Credit Guarantee Fund, where the Ministry is a stakeholder. The new indemnity fund could be an extension of the existing fund. The problem here would be to find a solution that would make the depositories more involved and accountable.

Ms. Cornelia Harabagiu, Secretary of State, stated that MoA received positively the proposals and it is interested in reviewing the proposals presented today. In respect of the technical issues, an agreement and solutions could be easily reached and the MoA would modify the regulatory framework accordingly. On the Indemnity Fund financing, Secretary of State expressed concerns related to the pressures on the state budget and the need to prioritize the allocations taking into account the interest in supporting the producers to lower their costs and thus to develop. Ms. Harabagiu said that a co-financing solution, involving the depositories and/or other contributors, would be more suitable in the current context.

2. Next steps

MoA will form an internal PWG gathering representatives of all involved departments (legal, economic, budget, rural development, etc) to analyze in depth the proposals and to formulate a position.

After this step, the MoA and the SPI PWGs could meet and have discussions in order to reach final solutions.

The contact between the two PWGs will be ensured by the SPI Secretariat and by the Counselor of the Secretary of State.

SPI Secretariat will send to the MoA the study prepared by Agriteam and ordered by the World Bank on the financing needs for the Indemnity Fund.

At the suggestion of the MoA Secretary of State, SPI Secretariat will ask SPI Committee members to invite MoA Secretary of State to join them on July 25 in order to discuss on this project.

