

Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



**SPI Project SPI Project on Rural Lending
Project Strategy Meeting
January 25th, 2007
9:30 – 11:30 am
Romanian Banking Institute**

Participants:

Project Management Group

Project Owner: Radu Negrea, RBA Board Member

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

Project Working Group

Veronica Toncea, President, Rural Credit Guarantee Fund

Dina Ilie, Expert, National Bank of Romania

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

MINUTES

I. Project objective and guiding principles

Participants agree that the setting up of an appropriate legal and institutional framework for warrants-deposit certificates could constitute an important step in revigorating the flow of financing to agriculture.

Ministry of Agriculture recognizes that the further development of agriculture in Romania is very much dependent on the way in which this sector will be able to attract financing. On the other hand, banks agree that rural lending could increase its relative importance in their business and that, in particular, lending against warrants-deposit certificates on cereals has the potential to increase commercial banks' lending to agriculture, by reducing the credit risk, lowering transaction costs, and improving loan recovery.

Therefore, the objective of the project: ***“To prepare a set of specific recommendations (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”*** represents a sensible and feasible approach in overcoming the current deadlock.

In this regard, participants outlined that the following principles should guide the project working group in designing the solutions:

1. **a system of control of the depositaries and of the cereals deposited** should be in place to ensure that the titles issued by the depositaries (deposit certificates – warrants) are backed by cereals that are stored in the quantity and of the quality stated, and that depositaries can always return the cereals in the amount and the quality noted in the receipt. This is an important trust component of the process of converting agricultural commodities into tradable securities.

In practice, such system of control could be enforced through rigorous licensing procedures of depositaries, performed by a qualified institution, based on rigorous technical and financial criteria. In addition, the verification of the quality of stored cereals should be performed by independent specialized institutions.

2. **a system of risk assurance** should provide comfort to those that trade or accept deposit certificates – warrants as guarantees that the risks incurred are adequately covered. In practice, this could be achieved through the setting up of the Deposit Certificated Guarantee Fund. In this regard, the Ministry of Agriculture should play a key role and could be supported by the existing Rural Credit Deposit Guarantee Fund.

In designing the solutions, the project working group will look as much as possible into the experience of other countries (Germany, France, Canada, etc.).

II. Preparations for project working group's further discussions

Participants agreed on undertaking the following actions and tasks in order to ensure that the most relevant information is available to the working group for its deliberations:

1. SPI Secretariat will prepare a list of tasks and responsibilities that should have been accomplished according to the existing relevant legislation (the list of existing regulations will be validated with the Ministry of Agriculture and the Rural Deposit Guarantee Fund) – deadline February 7, 2007;

2. Ministry of Agriculture will indicate which tasks and responsibilities have been brought to completion so far and indicate, for the unaccomplished tasks, the reasons for this situation, deadline February 15, 2006;

3. Rural Credit Deposit Guarantee Fund will make an analysis of the risks incurred by agricultural lending backed by deposit certificates – warrants and will identify those that could be assured by insurance companies and those that could be assured through the Deposit Certificates Guarantee Fund; RCDGF will also study the issue of pricing the deposit certificates, deadline February 15, 2006;

To support this task, PO/PM/SPI Secretariat will send a letter to the Insurance Supervision Commission regarding the coverage of risks in agricultural lending by insurance companies. Another letter will be sent to the Commodities Stock Exchange in order to determine the issues raised by the deposit certificates – warrants trading.

4. Banks will provide a perspective on the potential for increasing the lending to agriculture based on warrants – deposits certificates, outlining the specificities of the lending process and procedures for this new business and the perceived risks and costs, deadline February 15, 2006;

5. National Bank of Romania will identify whether the existing prudential rules will have to be modified in order to accept the deposit certificates – warrants as guarantees within acceptable risk parameters, deadline February 15, 2006.

Based on these inputs, the project working group will analyze the existing roadblocks to the development of the agricultural warrants-backed lending and will identify possible solutions in overcoming these difficulties.

III. Next project working group meeting

Depending on the relevant information availability, the next project working group meeting could be held in the week February 19-23.