

2008 Project Proposals for SPI Committee Endorsement

		I. Business Development			II. Industry Competitiveness	III. Industry Reputation
		<i>1)Developing lending to municipalities</i>	<i>2)Increasing bank lending under PPPs</i>	<i>3)Facilitating structural lending</i>	-	-
Description - background		Local public authorities have to undertake municipal projects on infrastructure, transportation and other, and one of the eligible financing sources are the bank loans. Banks see some constraints in lending to municipalities as the legal framework still has unclear issues such as municipalities' bankruptcy or some provisions difficult to apply (such as the compulsoriness for credit rating) or poorly applied (such as public access to municipalities' budgets and to execution of budgets for assessing the indebtedness level).	PPP is a viable method of introducing private management, know – how and resources in public services, through long term contracts. Although the national legislation has been recently amended in order to be better aligned with EU Directives and the institutional framework has been completed by establishing a special unit in MEF, banks appreciate that additional measures have to be taken in order to reach a better level of risk sharing among the public and private partners and to clarify legal aspects.	Beneficiaries of structural funds will have to co-finance projects by 50 percent and will often use loans to cover this share. Banks that should ensure these loans are reluctant to get involved in this kind of lending because of the unclear regulations and guides for implementing the structural programs. Although the government has established a National Guarantee Fund, not all banks have signed partnerships with the new institution and are reluctant in accepting the guarantees issued by it as these are accepted as explicit guarantees only based on the Fund compliance with some conditions (such as auditing conditions).		
Impact drivers	Industry economic driver	By removing the obstacles in lending to municipalities, banks' appetite for this type of lending would increase, and their long term placements would increase considerably.	PPP is the most used way of approaching large value infrastructure projects that represent an important business opportunity for banks. Structural lending often involves PPPs.	Structural lending is a high potential business for the Romanian banking sector in a relatively short period of time.		

	Public good driver	Improved access to financing of the municipalities would facilitate the projects for the benefit of the communities.	The result of an increased banks' involvement in financing PPPs would facilitate the accomplishment of a better infrastructure and would also contribute to the improvement in the absorption rate for structural funds.	Increasing the absorption rate for structural funds and boost economic development		
	Some Economics	To be determined	To be determined	The demand for such financing is estimated to reach five billion euros in the next two years		
SPI Committee Involvement Rationale		SPI Committee would be the proper framework for identifying the problems and for finding the optimal public-private solutions.	SPI Committee aegis would ensure a public – private approach supporting the reaching of solutions acceptable for all parties.	SPI Committee would facilitate a balanced approach, addressing business and prudential concerns.		
Actionable SPI Committee Proposal (prepared by SPI Secretariat)		A document identifying the existing problems, their solutions and implementation plans	A document presenting the needs for improving the legal and institutional framework in order to facilitate lending under PPPs	A document presenting the benefits for the industry, the regulating framework and perceived roadblocks and solutions for their removal		
Proposed SPI Secretariat Contribution (in addition to preparing SPI Committee Proposal)		SPI Secretariat could search for the European experience in the area and could support a bank survey in order to identify the existing difficulties in financing municipalities	SPI Secretariat could search for the European experience in the area and could support a bank survey in order to identify the existing drawbacks in lending under PPPs	SPI Secretariat could search for the European experience in the area and could support a bank survey in order to identify the existing drawbacks in structural financing		
Expected RBA Contribution		<ul style="list-style-type: none"> • To provide experts for the working group • To run the industry survey • To validate the solutions 	<ul style="list-style-type: none"> • To provide experts for the working group • To run the industry survey • To validate the solutions 	<ul style="list-style-type: none"> • To provide experts for the working group • To run the industry survey • To validate the solutions 		

Other Expected Contributions		NBR, MEF and Bucharest municipality to provide experts for the working group.	NBR, MEF and Chamber of Commerce and Industry to provide experts for the working group.	NBR , MEF and Guarantee Fund to provide experts for the working group.		
Summary of Envisaged Convergence Role	Analytical					
	Consensus – building	Facilitate international support	Facilitate international support	Facilitate international support		
Estimated completion date of actionable SPI document		Sept. 2008 High level impact	June 2008 High level impact	March 2008 High level impact		

	I. Business Development			II. Industry Competitiveness	III. Industry Reputation
	<i>4) Promoting refinancing through securitization</i>	<i>5) Supporting thermal rehabilitation of houses</i>	<i>6) Development of Interbank Direct Debit</i>	-	-
Description - background	<p>The Securitization Law was enacted in 2006 and banks worked on creating homogeneous evaluation rules for several types of buildings, but there are no signs that the market is functioning.</p> <p>One reason could be that banks prefer loans for abroad instead of getting new financing sources by refinancing their mortgage loans. Due to the RMO regime, the cost of final loans financed from foreign sources is high. Another reason is that the norms implementing the law provide that only mortgage banks and commercial banks can issue mortgage securities.</p>	<p>A governmental project for thermal rehabilitation of house has been launched recently. The program provides that the thermal rehabilitation projects will be financially sustained by the State Budget (34% of the total costs), local budgets (33% of the total costs) and the rest by banks. Banks seem reluctant to enter into such loans because of the loan contracting party would be the tenants' associations and they see a legal problem in that. Banks would feel more comfortable to deal with companies specialized in administrating properties.</p>	<p>In Romania, compared to other European countries, Inter-bank Direct Debit is not a very popular bank product. The utilization of the IDD is low not only because of the low demand, but also because of some unclear aspects in the specific regulations that make banks reluctant in offering this product (i.e. the closing date for receiving complaints, the validation of the subscription code and invoice number, etc.). By non-offering this product, Romanian banks will be disadvantaged in the single European market context.</p>		

Impact drivers	Industry economic driver	Banks could improve their profitability by decreasing their costs of their liabilities. The bonds issued on the basis of the mortgage securities could be a good placement for the pension and investment funds.	Loans for the thermal rehabilitation of houses would bring additional revenues to banks.	By improving the legal framework banks could be more comfortable with DD and include it in their product portfolios. . Also, it would reduce costs and errors generated by manual processing, as well as the cash used for payments and ATM withdrawals, with the attached costs. As the technical infrastructure is in place, the efforts for banks to introduce the new product are not significant.		
	Public good driver	Consumers could have access to mortgage loans with better cost terms.	The program is meant to improve the quality of life and to diminish the current expenses with heating.	The wide use of DD for companies providing utilities or loans would decrease their collection costs, allowing them to reduce the fees charged from consumers. At the same time, as the DDs permit the payment of bills to different providers and creditors from a single account, there is the possibility of reducing account maintenance fees.		
	Economics	In 2006 the mortgage market was estimated to 3.28 billion USD.	To be determined (58 % of the blocks, 2 million apartments respectively need thermal rehabilitation works; maximum bank financing would raise to about EUR 2 billion)	Currently, only 11 Romanian banks offer this product; in June 2007 only 613 direct debit instructions during June 2007. In European countries DD has an import share of the total number of payment instruments: in Hungary -22%, in Portugal – 20% and at the EU level – 32%.		
SPI Committee Involvement Rationale	SPI Committee would ensure an objective perspective on the ways of expanding securitization.	SPI Committee endorsement of the initiative would sustain a balanced approach and would facilitate the identification of solutions acceptable to all involved parties	Having the project led by the SPI Committee would improve the chances to have the necessary regulatory amendments prepared and enacted in a short timeframe.			
Actionable SPI Committee	A document listing the roadblocks in implementing securitization and the	A document presenting the proposed financing	A document presenting the necessary regulatory amendments and the impact of			

Proposal (prepared by SPI Secretariat)		possible ways to remove them, sustained by a comparison of the current mortgage lending interest rate with the projected level under securitization	schemes and the solutions addressing banks' concern	increased use of DD on the banks and consumers.		
Proposed SPI Secretariat Contribution (in addition to preparing SPI Committee Proposal)		SPI Secretariat could perform a market research on the current interest level and project the potential one	SPI Secretariat could support a bank survey in order to the impediments perceived by banks in financing rehabilitation projects	<ul style="list-style-type: none"> • A research paper showing the benefits of DD for banks, customers and companies and the DD importance in EU countries • A Regulatory Impact Assessment of increased use of DD on the banks and consumers. 		
Expected RBA Contribution		<ul style="list-style-type: none"> • To provide experts for the working group • To validate the solutions 	<ul style="list-style-type: none"> • To provide experts for the working group • To run the industry survey • To validate the solutions 	<ul style="list-style-type: none"> • To provide experts for the working group • To run the industry survey for RIA 		
Other Expected Contributions		NBR, MEF and mortgage companies to provide experts for the working group.	NBR, MEF and NSC to provide experts for the working group	NBR and NACP to provide experts for the working group		
Summary of Envisaged Convergence Role	Analytical					
	Consensus-building	Facilitate international support	Facilitating the access to international experience	Facilitating the access to international experience		
Estimated completion date of actionable SPI document		June 2008 High level impact	March 2008 High level impact	June 2008 (Medium level impact)		

	I. Business Development			II. Industry Competitive ness	III. Industry Reputation
	7) Securing down payments made by individuals for real estate projects	8) Standardization of the contractual framework for repo and derivative transactions	9) Green Banking	-	-
Description - background	One factor potentially preventing the development of the mortgage market in Romania is the potential buyers' lack of confidence in making advance payments to real estate developers, in lack of some security.	Repos and derivative transactions are subject to bilateral agreements signed by the involved parties. Such agreements are highly recommended and, in some cases, enforced by national regulations, because of the complexity and risks involved. International professional associations (such as ISMA-International Securities Market Association) have transposed the members' experience and know-how into standardized contracts which are increasingly used globally. Repos and OTC derivatives widely used in developed markets are registering very low volumes in Romania.	The issues related to environment protection and global heating are concerning a growing part of the population and companies and many of them would like to support actions for reducing pollution. Banks could provide their clients with options to invest in environmentally friendly banking products through the development of „green products”: energy efficiency mortgages, green car loans (preferential rates for hybrids and other low-emitting vehicle types), alternative energy venture capital, green credit cards (offering donations to NGO for every purchase), flexible financing for fuel efficient technologies, green loans for new condominium construction (energy and resources-efficient projects), etc.		

Impact drivers	Industry economic driver	Lack of trust in the real estate contractual framework could be one of the factors preventing the expansion of the real estate loans/mortgage loans. the development of the hampers the development of the economic system and negatively affects the households' behavior, eventually resulting in a potential adverse impact on the banking activity in many regards.	Repo and derivative transactions are improving the liquidity management of banks and are reducing the risks. The standardization of the contractual framework of these transactions would stimulate banks both to use them for their own account and to develop new modern banking products for their clients. An increase in the volume of transactions would bring a growth in the banks' income. At the same time, standardization is likely to result in costs reduction.	The green banking products could increase the market share and generate profits, while improving brand recognition and enhancing reputation.		
	Public good driver	Increased confidence of individuals in the legal framework could contribute to the development of the real estate market. By securing the down payments, the level of consumers' protection would be improved.	The standardization of the contractual framework could facilitate the development of the secondary market for securities issued by the Romanian government (though other types of financial instruments can be used as collateral such as equities, corporate bonds, securities issued by foreign entities). At the same time, it could facilitate the development of more efficient risk management techniques for banking industry.	Potential environmental benefits in terms of reducing air pollution and GHG emissions. Potential to generate environmental awareness and action among clients.		

	Economics	To be determined	To be determined	N/a		
SPI Committee Involvement Rationale		SPI Committee endorsement of the initiative would sustain households' protection and safe development of the mortgage market.	To facilitate a coordinated approach of the main stakeholders (banks, NBR, MEF, NSC and investment companies) resulting in a contractual framework that would cover all the concerns and would smooth the conclusion and execution of transactions.	The coordination offered by the public-private Committee would help the creation of banking products that would meet the prudential requirements and the customers' needs..		
Actionable SPI Committee Proposal (prepared by SPI Secretariat)		A document presenting the proposed instruments for increasing buyers' protection within the real estate contracts and the needed implementing measures	A document centered on the standard contract/s and on the benefits arising from its utilization.	A document describing the benefits of green products and a description of these ones to be included in the banks' offers		
Proposed SPI Secretariat Contribution (in addition to preparing SPI Committee Proposal)		SPI Secretariat could support a bank survey in order to assess the features of the Romanian real estate market transactions and the potential increase in the banks' business. SPI Secretariat could search in the international	The SPI Secretariat could help design a banking survey that would outline the implementation status, the concrete needs of the banking sector and the expected support.	The SPI Secretariat could prepare a research paper on the Green Banking concept, benefits and on the international experience.		

		experience for solutions.				
Expected RBA Contribution		<ul style="list-style-type: none"> •To provide experts for the working group •To run the industry survey • To validate the solutions 	<ul style="list-style-type: none"> •To provide experts for the working group •To run an industry survey on the main provisions of a standardized contract • To approve and to use the standardized contracts 	<ul style="list-style-type: none"> •To provide experts for the working group •To run an industry survey on plans to launch environmentally friendly products •To finance the public campaign 		
Other Expected Contributions		NBR, MEF and NSC to provide experts for the working group	NBR, MEF and NSC to provide experts for the working group	NBR, MEF, NACP, Ministry of the Environment and NGOs to provide experts for the working group		
Summary of Envisaged Convergence Role	Analytical		Convergence sponsored the presentation of the Italian experience and implementing MiFID and supports SPI Secretariat.			
	Consensus-	Facilitating the access to international experience	Facilitating the access to international experience	Facilitating the access to international experience		
Estimated completion date of actionable SPI document		Sept. 2008 Medium level impact	Sept. 2008 Medium level impact	December 2008 Low level impact		