



INTRODUCTION IN SPI ALBANIA PROJECTS, PROCEDURES AND METHODOLOGIES

SPI Albania Secretariat
First PWG meeting on Capital Adequacy
December 5, 2008



Agenda

I. SPI Albania Projects' Progress

- a. The Impact of IFRS Implementation on the Banking Regulations
- b. Improving Auction Procedures for Immovable Collateral Under Foreclosure
- c. Reducing Cash Transactions

II. SPI Albania Project Management

III. SPI Albania Methodology – EU Better Regulation



I. SPI Albania Projects' Progress

- The Impact of IFRS Implementation on the Banking Regulations

Current status:

- The project is concluded with the approval from the PWG of the final document on Amending the Banking Regulations for IFRS Implementation.
- SPI Committee approved the PWG Recommendations as presented during the SPI Committee meeting, November 2008.



a. The Impact of IFRS Implementation on the Banking Regulations Outputs

- Project Terms of Reference;
- The implementation of IFRS 1-First time adoption, in Albania;
- Note on the Albanian Legal Framework;
- Note on the European Experience in implementing IFRS;
- Note on the impact of IFRS implementation on banking regulations: Some of the main changes brought in Europe by implementing IFRS.
- Note on the European Experience in applying IFRS, sent to NAC;
- Report on Main Findings of the Survey on Banks readiness to IFRS;
- Inventory of Banking Supervision framework: categorized according to the depth of change and importance of amendment;
- Inventory of Banking Supervision framework: Specific issues of each regulation affected by the IFRS implementation and the sense of changes;
- Scoping of the Problem document;
- PWG Recommendation Document



I. SPI Albania Projects' Progress

b. Improving Auction Procedures for Immovable Collateral Under Foreclosure

Current status:

- The PWG has approved the final PWG position document on the bailiff service and on CPC amendments.
- SPI Committee approved the PWG Recommendations as presented during the SPI Committee meeting, November 2008.



b. Improving Auction Procedures for Immovable Collateral Under Foreclosure

Outputs

- Project Terms of Reference
- Note on Enforcement of Collateral
- Note on International Bailiff Experience
- Questionnaire on Bank's Difficulties in Dealing with the Bailiff Office
- Aggregated individual contributions on the CPC and PWG Proposals
- EBRD Albanian Mortgage Enforcement External Memo
- Regulatory Impact Assessment Questionnaire Main findings
- PWG Recommendations on Improving Bailiff Service
- PWG Recommendations on CPC Amendments



I. SPI Albania Projects' Progress

c. Reducing Cash Transactions

Current status:

- The PWG is currently reviewing the Cost-Benefit Analysis on cash and non-cash payments and the note on international experience.



c. Reducing Cash Transactions

Outputs

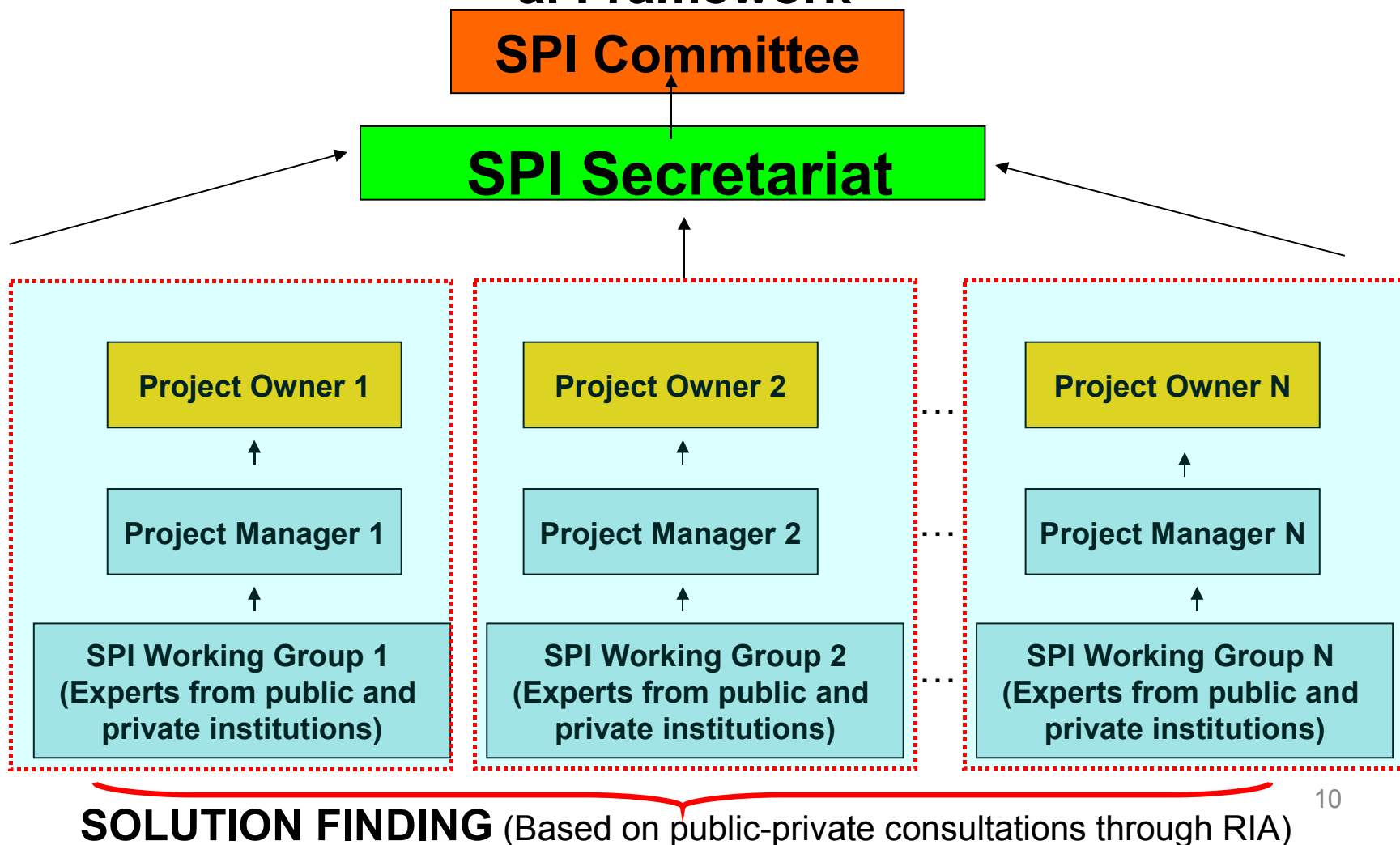
- ✓ Project terms of reference agreed
- ✓ Presentation by the Italian Association of Banks (ABI) on their initiative in reducing cash transactions.
- ✓ Proposing a Survey on the causes and costs of using cash based on 3 different proposals. AAB to take a decision in November
- ✓ PWG agreed on Scoping the Problem document
- ✓ The need to involve third parties such as mobile communication operators, utilities etc.
- ✓ Cash management in the Banks



II. SPI Albania Project Management

II. SPI ALBANIA PROJECT MANAGEMENT

a. Framework





II. SPI ALBANIA PROJECT MANAGEMENT

- PROJECT WORKING GROUPS
 - **Project Management Team**
 - **Composition & responsibilities:**
 - **Project Owner** - represents the main stakeholder at top management level and ensures the project oversight;
 - **Project Manager** – is appointed by the Project Owner (usually out of the PO's institution management staff) and ensures the management of the day-to-day activities;
 - **Deputy Project Manager(s)** – represent(s) the other main stakeholder(s) and second(s) the Project Manager in coordinating the day-to-day activities.
 - **Project Working Group**
 - **Composition:** representatives of all stakeholders, with specific expertise profiles.
 - **Responsibilities:**
 - » Attending the meetings;
 - » Actively participating in the meetings;
 - » Providing individual contributions (their institutions' experience, parts of documents);
 - » Validation of RIA questionnaire;
 - » Providing data/filling in questionnaires;
 - » Validation of RIA findings;
 - » Approval of position/policy documents;
 - » Supporting enactment activities.



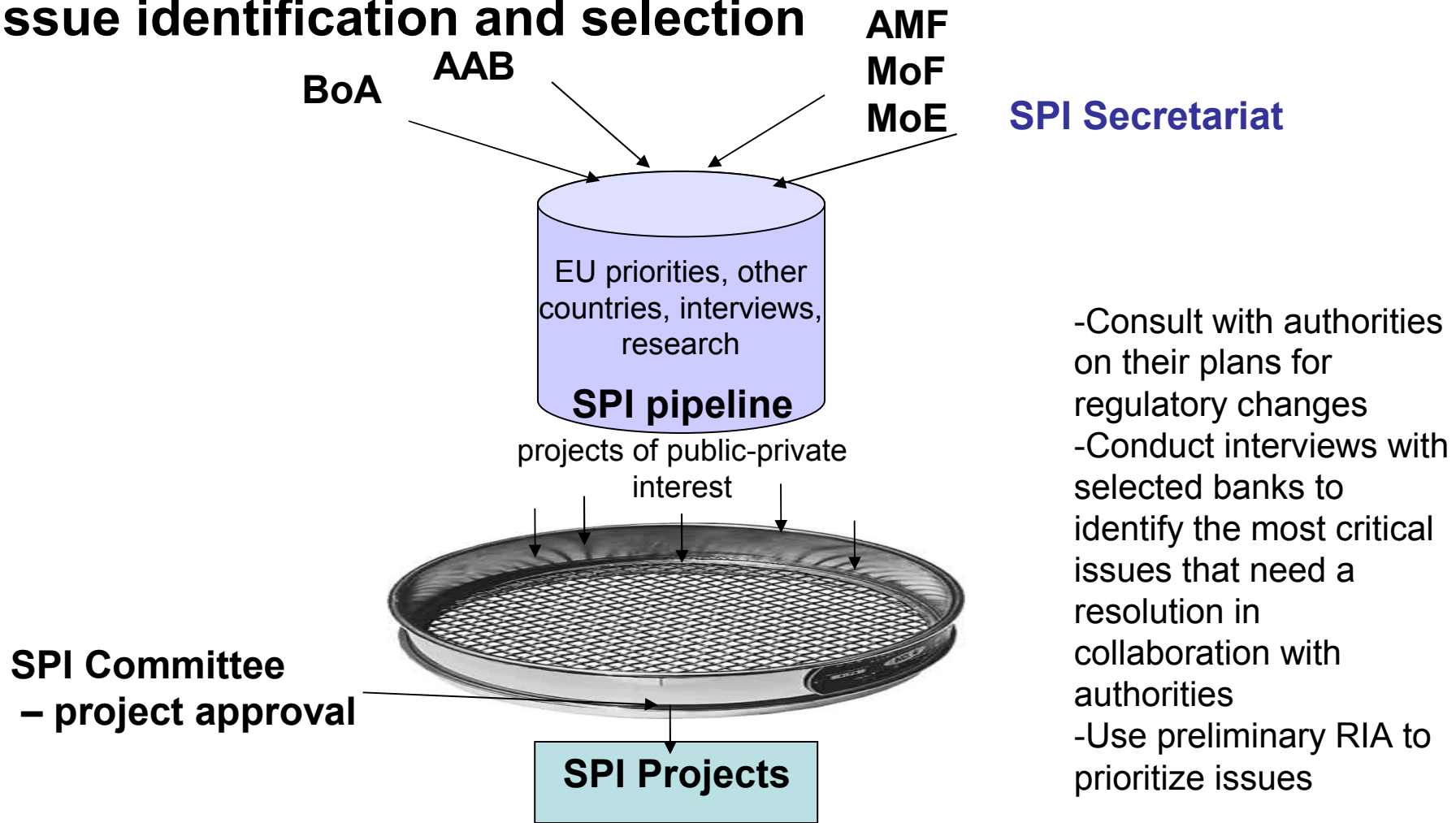
II. SPI ALBANIA PROJECT MANAGEMENT

- **PROJECT PLANNING and PWG GATHERING**
 - **ToRs drafting:**
 - background information – interviews with stakeholders and research;
 - project objective;
 - strategy;
 - methodology (steps, output, contributions)
 - **Drafting list of stakeholders**
 - **In PWG composition in cooperation with AAB – a fair representation of big, medium and small banks**
 - **Drafting, getting signatures and sending invitation letters**

II. SPI ALBANIA PROJECT MANAGEMENT

SPI Secretariat responsibilities by project phase

1. Issue identification and selection

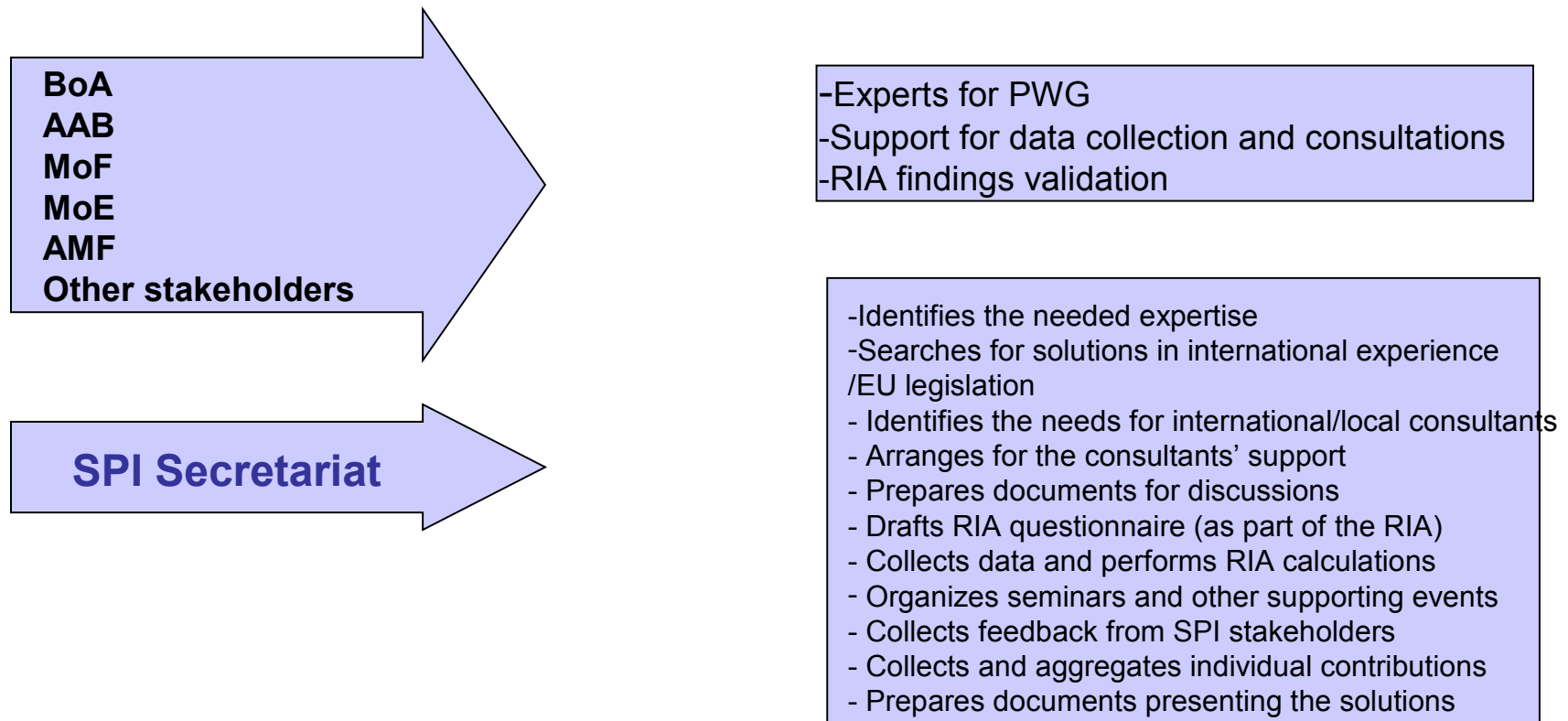




II. SPI ALBANIA PROJECT MANAGEMENT

SPI Secretariat responsibilities by **project phase**

2. Solution searching



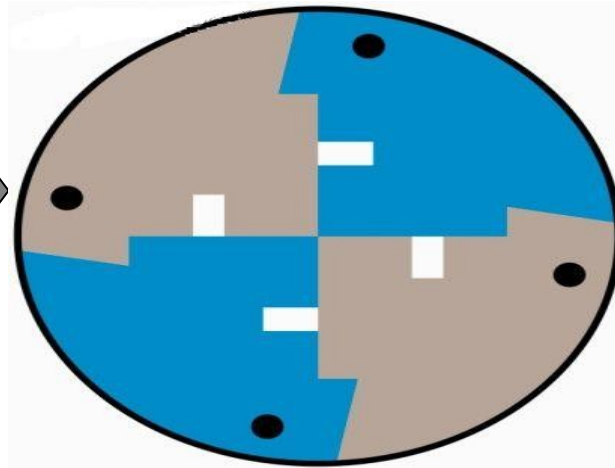
II. SPI ALBANIA PROJECT MANAGEMENT

SPI Secretariat responsibilities by project phase

3. Consensus building

AAB

- Banks review solutions
- Provide input on disputed issues
- **RBA Board endorsement for final recommendation**



BoA

- Revises proposed solutions
- Provides input on disputed issues
- **NBR Board endorsement for final recommendation**

SPI Secretariat

- **Looks for international benchmarking in disputed solutions**
- **Asks for independent opinions on disputed issues**
- **Provides ideas for reaching solutions acceptable to all parties**
- **Performs RIA for disputed issues in order to facilitate the best choice**

II. SPI ALBANIA PROJECT MANAGEMENT

SPI Secretariat responsibilities by project phase

4. Solution enactment

BoA, AAB and **SPI Secretariat** coordinate actions under a full range of SPI projects

SPI Secretariat

- Prepares the law / regulations enactment packages
- Prepares SPI Committee letters to the legislative initiator or to the BoA Board for BoA regulations
- Provides detailed description of RIA to the legislative initiator or to the BoA Board
- Follows up with the legislative initiator
- Notifies BoA on the initiation of the public consultation process
- Sends SPI Secretariat submission under the public consultation process
- Arranges and/or attends the meetings with institutions involved in the enactment process
- Prepares other documents as required by the legislative initiator





III. SPI Albania Methodology

EU Better Regulation



- Content

1. EU Better Regulation Framework, General Information
2. SPI Albania Methodology
3. Application of the methodology in practice



1. EU Better Regulation Framework General Information - a

- EU Better Regulation Approach, developed by the European Commission, aiming at:
 - simplifying and improving existing regulation;
 - better design new regulation; and
 - reinforcing the respect and the effectiveness of the rules,in line with the EU proportionality principle



1. EU Better Regulation Framework General Information - b

- EC comprises a very wide range of issues but...
- For Financial Services it has adapted the EU-Better Regulation approach to reflect the more specialized nature of financial services policies and the specific development circumstances.
- “Better laws” - having a full picture of their economic, social and environmental impacts
- Impacts assessed through the structured Impact Assessment tool.



1. EU Better Regulation Framework General Information -c

Impact assessment – IA - a set of logical steps which structure the preparation of policy proposals. IA enhances the policy making process through:

- providing a coherent framework to conduct evidence-based policy making, that spans the regulatory policy making process from beginning to end;
- the use of market and regulatory failure analysis ensures accurate identification of problems and the threats they pose to regulatory objectives, which are reflected in effective and efficient policy solutions amongst a wider range of possible policies;
- saving time in the long run by reducing the risk of regulatory failure;
- formal and informal consultation with stakeholders and by enhancing the transparency of the policy making process and keeping all affected parties informed that results in enhanced credibility and accountability of the policy making process.

Impact assessment is an aid to political decision-making, not a substitute for it.



2. SPI Albania Methodology

EU Better Regulation in 11 steps -a

The EU Better Regulation Approach	
Steps	Purpose
Scoping of problem	
1. Problem identification	To understand if a market/regulatory failure creates the case for regulatory intervention.
2. Definition of policy objectives	To identify the effects of the market /regulatory failure to the regulatory objectives.
3. Development of “do nothing option”	To identify and state the status quo.
4. Alternative policy options	To identify and state alternative policies (among them the “market solution”).
Analysis of impact	
5. Costs to users	To identify and state the costs borne by consumers
6. Benefits to users	To identify and state the benefits yielded by consumers
7. Costs to regulated firms and regulator	To identify and state the costs borne by regulator and regulated firms
8. Benefits to regulated firms and regulator	To identify and state the benefits yielded by regulator and regulated firms
9. Data Questionnaire	To collect market structure data to perform a quantitative cost and benefit analysis
Consultations	
10. Policy Document	To learn market participant opinions on various policy options
Conclusion	
11. Final Recommendations	Final report to decision-makers, based on Cost Benefit Analysis and market feedback



2. SPI Albania Methodology -b

Scoping of the Problem

+ Qualitative & quantitative CB Analysis

= Impact Assessment Analysis Document - IAAD

+ Consultations with Stakeholders

= Final PWG Policy Recommendations



2. SPI Albania Methodology - c

- Scoping of the Problem Document (steps 1–4)
 1. Problem identification
 - What is the problem? Is it due to Market or Regulatory Failures?
 2. Definition of policy objectives
 - General objectives (objectives of the authorities)
 - Specific objectives (objectives of the project)
 - Operational objectives (deliverables, actions of the project)
 3. Development of “do nothing option”
 4. Alternative policy options



2. SPI Albania Methodology – EU Better Regulation -d

- IAAD Document (steps 1 – 9)
 5. Costs to users
 6. Benefits to users
 7. Costs to regulated firms and regulator
 8. Benefits to regulated firms and regulator
 9. Data Questionnaire
- 5-9 Analysis on the incremental costs & benefits of the identified policy options



2. SPI Albania Methodology - e

- Consultations with stakeholders (step 10)
 - 10.1. Consultation questionnaire
 - 10.2. Consultations feed-back
- Final document – PWG Recommendation (step 11)



2. SPI Albania Methodology – f Market Failures

- MF are reflected by market inefficiencies and welfare losses, due to:
 - Information asymmetry – one part of a transaction lack important information. Information is costly to obtain or too complex.
 - Externalities – Production of a good affects parties other than the original producers and consumers. These effects are not reflected in the price.
 - Market power – Companies can persistently raise prices above the “competitive level”



3. Application of the Methodology in Practice Regulatory / Supervisory Failures - a

- regulation has unforeseen and unintended effects arising from interaction with a specific characteristic of the market affected,
- or when a supervisory practice is no longer adapted to the realities of a rapidly evolving market



3. Application of the Methodology in Practice

What is the problem & MRF (Bailiff) -b

International institutions assessed that the secured transactions legal framework in Albania is **appropriate & sound** but its effectiveness is hampered by the **slow enforcement system** and flaws in the administrative system.

Banks – the largest users of the enforcement system in Albania - complain on the effectiveness of the enforcement system and institutions.

EURALIUS has identified insufficient professional expertise, scarce infrastructure and working conditions, lack of professional and financial incentives in the Bailiff offices.

The problems in the Bailiff Service combined with the deficiencies in the legal framework produce an inefficient enforcement system.

The low efficiency in the current enforcement system is result of a **regulatory and administrative / management failure**. The current regulation is not appropriately prescribed for the market. This regulatory failure generates additional uncertainty and costs to all the users of the enforcement **system**.



3. Application of the Methodology in Practice Objectives (CPC) - c

General Objectives:

To improve the economy competitiveness;

To increase the opportunities to engage in transactions.

Specific objectives:

To improve the efficiency of the enforcement system;

To stimulate the development of lending activity;

To decrease in the cost of bank products and services.

Operational objectives:

To steady increase the execution rate of court orders;

To secure the timely execution of the court orders;

To ensure rapid recovery of bad debts.



3. Application of the Methodology in Practice “Do nothing” Option (IFRS) -d

The non-revision of all banking regulations with the international accounting principles would make banks to maintain two evidences of their activity: one based on national accounting standards, in order to comply with banking regulatory provisions, and one based on international standards, in order to comply with the general legal requirements. This situation would involve additional costs for banks and confusion among the market participants.

Impact of the “Do Nothing” option to the various stakeholders

Regulated firms / Banks:

Additional costs on human capital generated by double reporting (BoA & IFRS).

Consumers:

Non informed consumers might be confused.

Authorities:

There are no additional costs.



3. Application of the Methodology in Practice Alternative Options (Reducing Cash) - e

The volumes of cash transactions within the banking system might be further reduced by:

Option 1: Self regulatory measures

Establish a common policy among banks that will aim:

- a) the reduction of cash transaction by creating disincentives for cash use; combined with
- b) the increase of non-cash transactions by creating incentives for the costumers to use alternatives to cash.

Option 2: Regulatory measures

Option 3: The combination between the regulatory and self regulatory measures



3. Application of the Methodology in Practice - f Qualitative Cost & Benefit Analysis (CPC)

	Impact	Comments
Costs	Lower	
One-off	Slightly higher	
Human resources		
New staff	=	No additional staff needed to comply with the new legal provisions
Trainings for existing staff	=+	Due to the amendments in CPC, there might be the need to spend time to acknowledge them.
On going	Lower	
Human resources	=	
Expenses		
Procedural	-	Under the art. 525 the creditor should pay for each procedure (when required by the law) and will be reimbursed at the end of the process by the proceedings of the sale. Given the low rate of successful auctions and the low price that the bank is very often forced to liquidate the property, in the end of the process it might happen that the bank is not able to recover all the payables. The amendment of art.525 on expenses by adding– the creditor will pay only for the initial fee, is expected to reduce the number of appeals by the debtors and reduce the expenses paid.
“Purchase” costs	-	More transparent and objective selecting rules and procedures for the appraisers would end in more realistic market value for the foreclosed immovable, diminishing thus banks’ losses from exchanging the good for the loan within auction procedures and re-selling them for a lower price.
Benefits	higher	
Additional loans – immovable property backed	+	The more rapid recovery of bad debts would give the possibility to re-place those sources in additional loans. Furthermore, banks would be more willing to enter into mortgage-backed transactions.
Cost saving / + revenues	+	By increasing effectiveness and fairness in the procedures more third parties will be willing to enter in the auction and bid to purchase the immovable property, accordingly banks will not be obliged to take the property in exchange of the loan
Equity relief	=	
Total impact	Less costs more benefits	A more effective foreclosure process will generate direct and indirect benefits.