



**Regional Seminar on Public Policies and
Political Decision Making
Zagreb, Croatia
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Policy Analysis as Advocacy Tool**

**Case Study
Special Projects Initiative (SPI) Albania**

**By
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What is SPI Albania ?

- Public Private Partnership established in 2008 by Central Bank of Albania and Albanian Association of Banks with the support from World Bank's Convergence Program
- Aims at Financial Sector Modernization aiming to fulfill the European Central Bank financial modernization criteria
- The novelty of the program lies in its strong practical focus evidenced by four aspects:
 - ✓ ex-ante agreement among public and private stakeholders on issues needing reform
 - ✓ quantification of the economic impact of the proposed changes for each stakeholder
 - ✓ extensive analytical and consensus building discussions within public private working groups
 - ✓ Ongoing focus on enactment



“It is crucial to be aware that market-led progress does require co operation among economic (public and private) agents. The driver of co-operation should be, as much as possible, moved by the private sector, i.e. by an enlighten perception of the private interest. But we cannot be blind to the fact that the necessary co-operation among private market participants does not materialize unless public authorities play an important role in promoting it.”

Tommaso Padoa-Schioppa, former Executive Board Member, European Central Bank



The SPI Platform

- **SPI Committee sets reform program**
 - Central Bank, Banking Association, Ministry of Finance, Consumer Protection Agency, Convergence Program
 - Industry can propose issues of interest
 - Analytical work starts if authorities do not object
 - Authorities agree ex-ante to act on proposed WG solutions
- **SPI Secretariat is the “engine” of the platform**
 - “Executive Project Manager”
 - 2-3 staff with banking, consulting and policy background
 - Close liaison with Banking Association and Central Bank
 - Convergence Program’s technical support
 - Catalytic, enabler, “honest broker”, gap filler
- **Working Groups prepare analytical solutions**
 - Bank and official experts work side-by-side

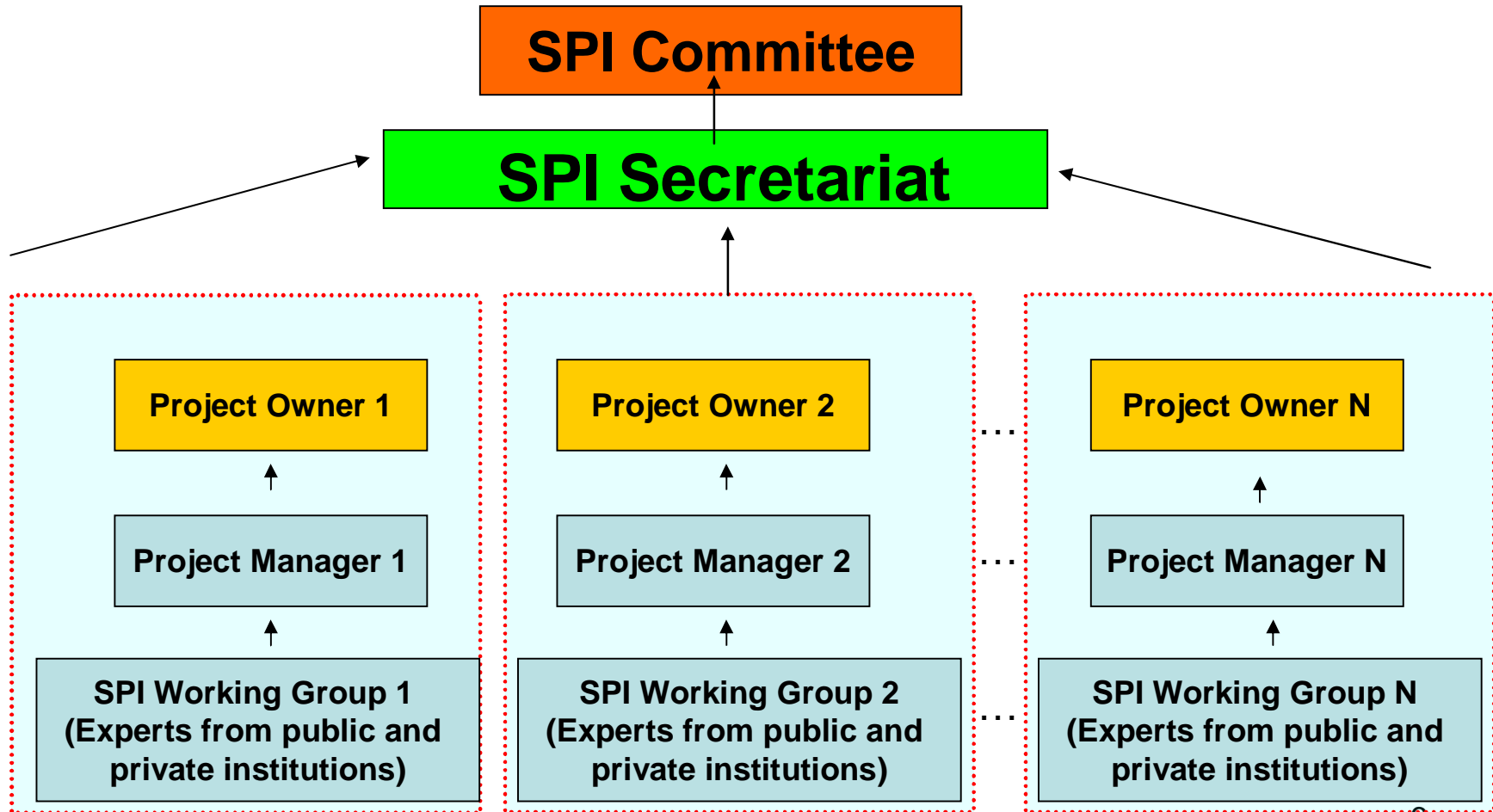


I. SPI Albania Project Management



SPI ALBANIA PROJECT MANAGEMENT

a. Framework



SOLUTION FINDING (Based on public-private consultations through RIA)



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.



SPI ALBANIA PROJECT MANAGEMENT

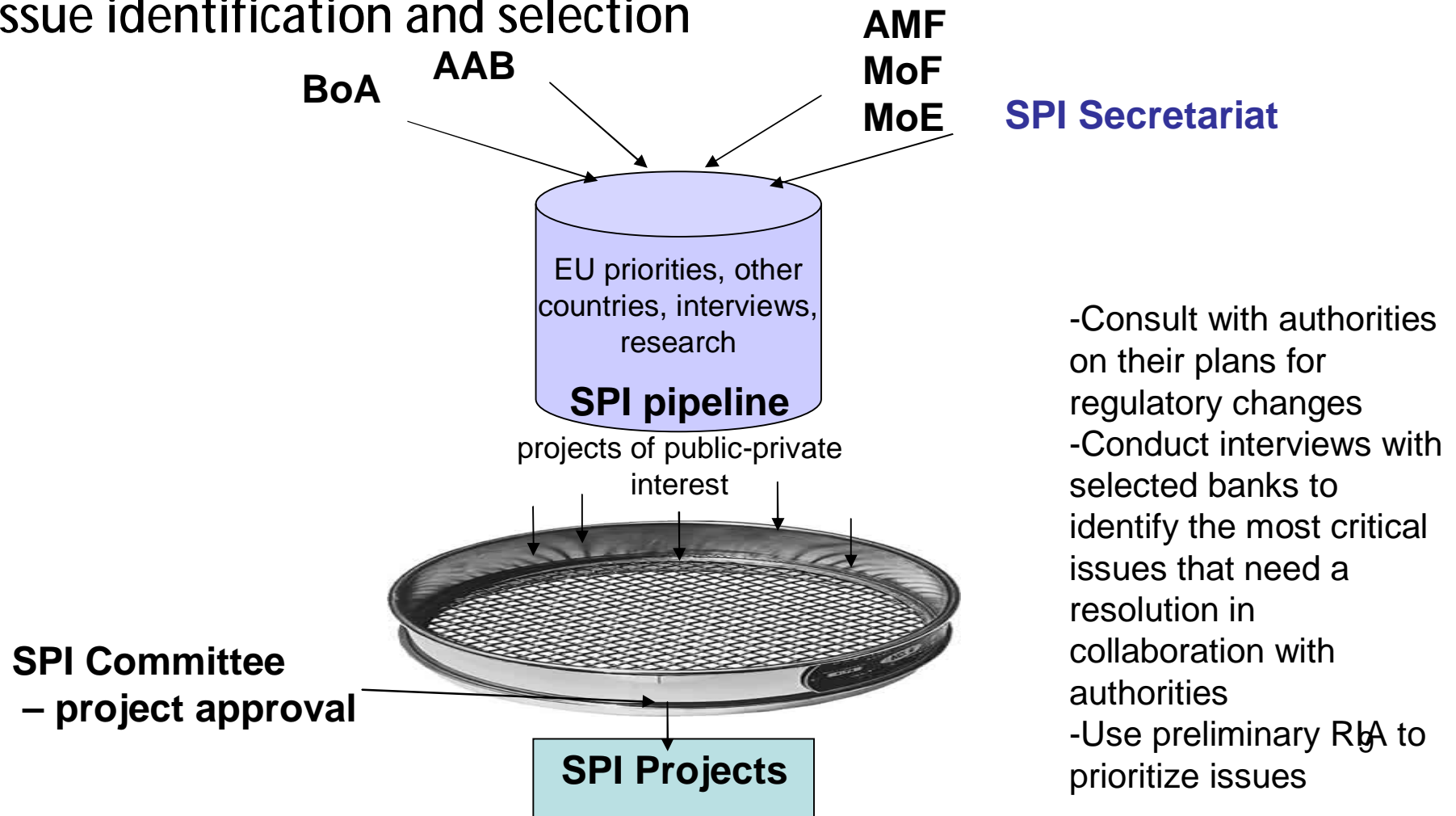
- **PROJECT PLANNING and PWG GATHERING**
 - **ToRs drafting:**
 - background information – interviews with stakeholders and research;
 - project objective;
 - strategy;
 - methodology (steps, output, contributions)
 - **Drafting list of stakeholders**
 - **In PWG composition in cooperation with AAB –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



SPI ALBANIA PROJECT MANAGEMENT

SPI Secretariat responsibilities by project phase

1. Issue identification and selection



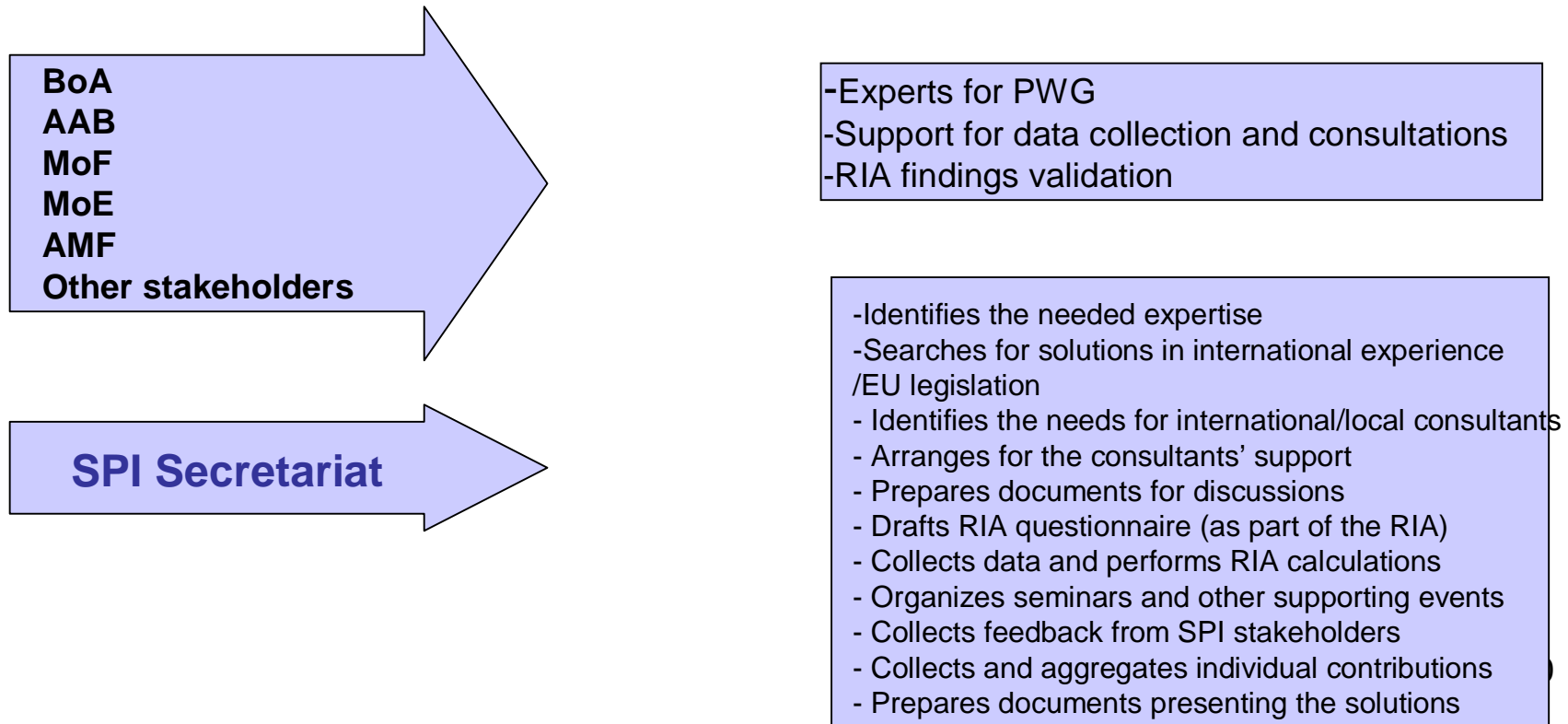
- Consult with authorities on their plans for regulatory changes
- Conduct interviews with selected banks to identify the most critical issues that need a resolution in collaboration with authorities
- Use preliminary RIA to prioritize issues



SPI ALBANIA PROJECT MANAGEMENT

SPI Secretariat responsibilities by **project phase**

2. Solution searching





II. SPI Albania Methodology



SPI Albania Methodology – EU Better Regulation

- EU Better Regulation Approach, developed by the European Commission, aiming at:
 - simplifying and improving existing regulation;
 - better design new regulation
- 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.



SPI Albania 2008 Potential Projects

European Central Bank CRITERIA

	SPI Albania 2008 Potential Projects European Central Bank CRITERIA				
Italian Banking Association CRITERIA	Asymmetric information	Completeness of the market	Increased opportunities to engage in financial transactions	Reduced transaction costs	Increased competition
Business development	1. Corporate /consumer lending 2. Scoring card system for individuals	3. Stock exchange 4. Leasing transactions 5. Securitization 6. AAB Strengthening 27. Consumer credit	7. Agricultural lending 8. Lending to tourism 9. Lending to municipalities 10. Mortgage loans 11. Structural lending 12. Lending environment 13. Lending to PPPs 29. FX open positions	14. Strengthening bank staff	
Industry competitiveness	15. Credit risk in consumer lending 16. Better credit risk management 17. KYC policies	28. Corporate governance and requirements for their administrators	18. Expansion of banks activities 30. Revising capital adequacy ratio	19. Reducing cash transactions 20. Auction procedures for buildings 21. AML reporting 22. Write-off of bad debts 23. Account stopping 31. Reviewing guidelines on banks' liquidation 32. BoA reporting 33. Harmonizing accounting policies	
Industry reputation	34. Improving access to basic banking products	24. Financial ombudsman			25. "Effective" interest rate (EIR) 26. Consumer financial education 35. Enhancing financial consumer's protection
	6	7	10	9	3 13



SPI Albania Methodology – EU Better Regulation in 11 steps

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



SPI Albania Methodology – EU Better Regulation

Scoping of the Problem

+ Qualitative & quantitative CB Analysis

= Impact Assessment Analysis Document - IAAD

+ Consultations with Stakeholders

= Final PWG Policy Recommendations



SPI Albania Methodology – EU Better Regulation

- 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



SPI Albania Methodology – EU Better Regulation

- 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



SPI Albania Methodology – EU Better Regulation

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



EU Better Regulation

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.



The 3 Pillars of IA framework

1. Market / Regulatory Failure analysis (to decide *whether* to intervene)
2. Assessment of policy options (to decide *how* to intervene)
3. Public consultation & review



Key Features of IA

- **Wrong approach:** using IA once the policy decisions have already been made, i.e. at the end of the policy making process.
- **Correct approach:** using IA right from the start when policy options are still open.
- => IA is a tool to help with the final policy decision (and neither a means to justify the decision ex post nor a substitute for decision making).



Benefits of Impact Assessment

- 1. Better quality of policy making**
- 2. More transparent policy making**
- 3. Better communication with regulated/supervised firms (market participants)**
- 4. More credible evidential basis for policy proposals**



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 –e.g the failure of one market participant negatively affect others-US sub prime loan market
 - Market power – Companies can persistently raise prices above the “competitive level”



Regulatory / Supervisory Failures

- 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

For example: overregulation, outdated regulation because of changing world



Market/Regulatory Failure Analysis

The analysis should explain:

- what the problem is, and
- what evidence suggests that the problem is significant

Moreover, the analysis should clarify whether or not the

- problem can be solved (over time) **without a new regulatory policy**

Sometimes, market mechanisms and market forces may

- solve or mitigate problems due to market failures



Assessment of Policy Options in 5 Steps

1. Problem identification.
2. Development of the main policy options.
3. Defining policy objectives.
4. Analysis of the positive and negative impacts of each policy option.
5. Comparison of options through their net impact and identification of the preferred policy option/s.



Public Consultation & Review

1. Consult on the draft policy proposal and the IA report which accompanies it.
2. Publish the responses received, give public feedback, revise policy proposals accordingly.
3. Once it is implemented and enforced, keep the policy under review as appropriate.



Tips for Public Consultation

1. Inform timely the stakeholders for the forthcoming consultation (e.g. press releases, targeted mails etc.).
2. Allow adequate time for consultation.
3. Consult widely with market participants.
4. Encourage involvement of consumer representatives.
5. Try to hear the voice of consumers themselves (e.g. behavioral studies/experiments).
6. Give clear and timely feedback to stakeholders.
7. Do not necessarily believe what firms and consumer groups say – ask them!
8. Take seriously the efforts stakeholders make in order to provide data/info.



What is the problem & MRF (Bailiff) in the framework of Civil Procedure Code Amendments

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 produce an inefficient enforcement system. The low efficiency in the current enforcement system is the 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.



Objectives (Bailiff)

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 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.



“Do nothing” Option

Regarding the efficiency of and the confidence in the bailiff service, the only market action would be to organize private bailiff service but a new law is necessary to grant legal permission to undertake these activities. In case banks would establish their own bailiff services this could generate other market distortions: creating a special case for banks compared to other creditors and raising suspicions on the independence and correctness of the private service.

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

Regulated firms / Banks:

Follow a less ambitious strategy (loosing business opportunities) in the lending activity

Additional costs to enforce respective contractual rights or to recover bad debts

Consumers:

Have less access to finance because of banks' more prudent attitude

Authorities:

Missing growth opportunities due to less business and less financing to investment activities



Alternative Options (Bailiff Service)

Option 1: To improve the existing public Bailiff Office

Option 2: To privatize the Bailiff Office

Option 3: To liberalize the bailiff service and to introduce the two track system with public and private bailiff service

The Ministry of Justice decided to follow the third alternative policy option – to liberalize the bailiff service and as complementary to the public service to introduce the private service.

Proposed legal framework: Law on “*Liberalizing the Bailiff Service*” which was approved.



Outputs delivered in the framework of Policy Analysis Performed under the Project

- ✓ Project Terms of Reference.
- ✓ Scoping of the Problem Document.
- ✓ Note on International Bailiff Experience.
- ✓ Synthesis of the Bank's survey findings in dealing with Bailiff Offices.
- ✓ Regulatory Impact Assessment Questionnaire Main Findings.
- ✓ PWG Recommendations on Improving Bailiff Service.



Thank you for your kind attention!

For any further details please browse the Convergence Program's website www.convergence-see.eu and SPI Albania website www.spi-albania.eu