

Topic:Regulatory Impact Assessment in Indonesia Banking Industry

Research Proposal

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Background

The banking industry in any financial system serves as a method for development and improvement. Banks are capable to make this task through their important purposes of monetary intermediation, part of a competent payments method and supporting the functioning of financial strategies. It is not astonishing so, that governments the world over effort to develop a proficient system of banking, not just for the encouragement of competent intermediation, but additionally for the security of financiers, support of competent, competition, continuation of public trust in the stability of system for the system and security against collapse and systemic hazard. Globally, the banking industry is greatly regulated (Wilkinson, 2002). This is due to the essential position the monetary trade occupies in different markets. A well-organized approach, it is extensively recognised, and it is an excellent working for financial system of a country. Therefore, for the business to be successful, it should be supervised and regulated in perception of the failure of the market approach to identify social consistency and the propensity for market contestants to take excessive hazards which could damage the solvency and stability of their institutions. Supervision and regulation of banks keep an integral aspect of the system for assuring secure and excellent banking exercise.

Government regulation is often a source of reduced business competitiveness. This may be regulation that increases business costs and reduces business efficiency, that creates perverse incentives or authorizes anticompetitive behaviour, or regulation that distorts the operations of markets. It can also be regulation that is vague and capable of multifarious official

interpretations, depending on the whim or personal interest of the official. As countries around the world have tried to open, reform, and liberalize their economies, they have often focused on government regulation, sometimes an inheritance from an authoritarian or socialist past, as the source of economic and competitiveness ills (Wilkinson, 2002). To improve their economic performance and competitiveness, these countries have deregulated and have instituted systems to conduct cost-benefit and similar analytic reviews of proposed regulations. Regulatory impact assessment (RIA) relates a systematic assessment of the advantages and costs connected with a suggested latest regulation and development of the action of current regulations.

Aim and Objectives

The common aim of this research is to decide the effect of the supervisory and regulatory functions of the Indonesian Banking Industry. The purpose of this study is to assess current RIA experience and methodologies, mainly from the view of their possible significance in Indonesian Banking Industry. Few objectives of this study are to covers:

- Beginning of RIA and its development in Indonesian Banking industry
- Kinds of actions submitted to RIA
- Logic of RIA as a tool of regulatory reform
- RIA direction in Indonesia
- RIA method, excellent governance and regulatory reform
- RIA methods

- Performance of RIA approaches

Scope and Limitations

The research will cover the action of the regulatory officials as it connects to the banking industry in the last twelve years earlier to the consolidation period (Cabinet Office, 2002). The research supposes that the system of banking has still deregulated throughout the era covered in this research, as most banks exercise global banking, as the government act as the regulatory officials and supervisor of banks in the Indonesian banking industry.

Significance of Study

The research is important in that it will support depositors of investments in monetary institutions to completely identify the system of banking management and the aspects of the law as it connects to the deposit insurance plan (Jacobs, 2002). It also presents a proposal for the regulatory officials to appreciate the effect of their actions on the banking business, and emphasizes fields for development.

Statement of the Research Problem

Bank supervision/ regulations are applied to make sure an excellent and secure monetary system in the financial system. The actions are mostly related with the importance of hazard asset in banks, observance with important ratios like ratio of liquidity, ratio of cash reserve, ratio

of capital adequacy amongst others, and different business governance concerns. Insufficient supervisory structure and shortage of an excellent hazard asset record and system of knowledge sharing have participated in no small determine in disrupting the performances of banks, thereby guiding to the common distasteful occurrences of banking distress and liquidation through the regulators(Cabinet Office, 2002).

Research Questions

1. Why is it essential for banks to be openly regulated through Indonesian Banking Industry?
2. Have the regulatory officials supported in managing the financial and monetary inefficiencies of government strategies?
3. How helpful has assured financiers' funds through its deposit plan?
4. Has the Indonesian banking industry become secure, steady and demand the trust of the common people since the implementation of the government policies?

Introduction

Regulatory impact analysis is primarily a governmental discipline. It is certainly a kind of policy analysis, but one that seeks to consider policy choices from the point of view of all affected stakeholders (Alashi, 2002). It is properly a governmental role to aggregate, consider, reconcile, and balance interests, and, ideally, to make policy choices that are in the best interests of society as a whole. When stakeholders other than the government undertake policy analysis, they usually undertake it only from their own point of view, and one can reasonably expect that

their policy analysis and prescriptions would be tailored to their own interests and not necessarily take into account the interests of other stakeholders (Pargal, 2003). We thus should distinguish between governmental regulatory impact analysis as a kind of policy analysis and stakeholder policy analysis that must be presumed to be much more self-interested. In a well-ordered government policy competition and decision-making process, concerned stakeholders would promote their particular policy positions with supporting information, while the government would review all policy claims independently and on the basis of its own analysis. Regulatory impact analysis was introduced to the Indonesian national government, via the then Ministry of Industry and Trade by the 2002 ADB Deregulation and Competition Project (Morrall, 2001). The Project produced a training manual and trained a cadre of Ministry officials in the methodology. The manual was translated into Bahasa Indonesia, and the manual, along with revised Indonesian iterations of it, remains in circulation for government use (Jacobs, 2002). Through this effort, the idea of regulatory review and regulatory impact analysis secured a small foothold in at least one ministry. Today, the research arm of the current Ministry of Trade, Litbang, uses this form of cost/benefit thinking in its policy analytic work. To date, it has conducted two substantial regulatory impact analyses, one on rattan and the other on cocoa. Regulatory evaluation and review are not features of the common working of Indonesian officials, and these officials do not take cost advantage understanding into account in decisions to control, nor do they present much understanding to the excellent form of policy. Starting regulatory assessment and valuation to different Indonesian administrative institutions and teaching Indonesian civil servants to the levels of ability needed to do these assessments and valuations well is a main reform that calls for long, constant attempts (Alashi, 2002).

Literature Review

Introduction

The banking system in any financial system plays the essential role of encouraging financial development and improvement through the methods of monetary intermediation (Hahn, 2000). Development economists define that the evolution and existence of monetary organizations and markets comprise a compulsory aspect in the method of financial development.

Introduction to Banking Supervision and Regulation

Regulation of banks has been described through Llewellyn (1986) as a body of particular policies or agreed approach either applied through government or other outsider agency or self applied through implicit or explicit contract within the business that restricts the business operations and activities of banks (Jacobs, 2002). Banking policy has two important aspects:

- (i) The agreed behaviours and rules; and
- (ii) The observing and analysis to decide soundness and safety and make sure observance.

Supervision in contrast, is the method of observing banks to make sure that they are working their actions in a secure and excellent method and in accordance with rules, policies and acts. It is a system of deciding the monetary situation and of assuring conformity with laid down policies and regulations at any presented period. Bench (1993) defined that excellent management of banks guides to a strong banking business.

Dimitri Vitas (1990) also supposed that excellent supervision and regulation will reduce the unenthusiastic effect of ethical risk and price shocks on the banking industry, thereby supporting to a decline in failures of bank and distress of banking system (Jacobs, 2002).

The Objectives for Banking Supervision

Worldwide, Banks are additionally synchronized than other organizations due to their roles as monetary intermediaries (Santos, 2000). As monetary intermediaries, banks mobilise investments from the extra spending units at a cost for on lending of these investments to the shortfall spending units at a price both within and outside the nation.

Banking Supervision and Regulatory Structures

It has been defined that no theoretically optimal approach is there or excellent plan of what constitutes the excellent framework of banking system supervision and regulation. Aspects like variations in political frameworks, common problem and state of improvement of the monetary systems; the style and level of public disclosure for monetary status of banks; position of market regulation; the robustness and availability of information technology; and the abilities of the regulators guide supervisory and regulatory methods globally (Santos, 2000).

The Context of Regulatory Reform

As a matter of setting the context, it is well worth noting here that, less than ten years after the collapse of the Suharto regime Indonesia, as a state, continues in a process of major transformation(Radaelli, 2002). When Suharto lost power, significant structural arrangements of the Indonesian government changed, but others remained intact. Nonetheless, many of the day to day operations of government in its bureaucracies and administrative agencies continued much as they had in the past. In these agencies of government, ideas of what governments do and how they go about their business did not change quickly – in large part because the civil service personnel that managed them did not change(Santos, 2000).

Policy Advocacy and Analysis

Advocacy

What does “policy advocacy” mean? Obviously, advocacy of any particular policy can range from the slightest gesture of support to an orchestrated media campaign of promotion of a particular set of ideas, with all sorts of supporting analyses, documentation, endorsements and the like. For the purposes of this report, policy advocacy means persuasions, to change or adopt particular policies, directed at decision-makers who control policy making and to parties that can influence these decision-makers(Radaelli, 2002).

Analysis

Policy analysis can take many forms, and there can be different sorts of analyses that policy choices should generate. At heart, all forms of policy analysis seek to determine the likely impacts of a policy and policy alternatives on those affected by it, the stakeholders.

Alliances

Private sector policy analysis and advocacy are important sources of pressure for regulatory reform, both overall regulatory reform and reform of particular policies and regulations. Private sector associations can increase this pressure by forming alliances or coalitions among associations, and between associations and civil society groups (Radaelli, 2002).

Potential Problems

Associations are self-interested actors; they act for the benefit of members, not necessarily in the public interest (e.g., protectionist policy). In the case of a developed country with many competing and able interest groups, this might not be a significant issue, for one could expect an intense competition over policy choices, with the government as final decider, and, hopefully, protector of the overall public interest. Presently, however, Indonesia does not have many of these effective countervailing forces. There is, therefore, some risk – although it is difficult to estimate how great – that enhancing the policy capacity of private sector associations will increase their ability to capture public policy formation in their own interests and at the expense of the public (Radaelli, 2002).

Dealing with the Problems

With private sector association policy analysis and advocacy in such a rudimentary state in Indonesia, the problems posed are speculations about some of the possible adverse consequences of enhancing the associations' policy and advocacy abilities. Providing such assistance to a number of associations having different sorts of interests in the value chains, and to both national and regional associations, mitigates the risks involved. This is simply because the greater the kind and number of interests represented, the more likely there will be healthy competition over policy.

Conclusions of Literature Review

Indonesian Banking industry can play an important role in advancing regulatory reform in Indonesia. They represent the demand for a more business-friendly regulatory environment. If they analyzed the adverse impacts of regulation, rather than simply complain, and effectively advocated for regulatory reform, they could be a force for considerable improvement (Cherp, 2001). Most Indonesian banks do not perform cost-benefit or similar analyses of regulations, nor, with some exceptions, do they conduct advocacy campaigns (Radaelli, 2002). They are less effective forces for regulatory reform than they could be. Indonesian banking industry shows varying levels of development, application of state-of-the-art technology and resources. While different banks have different needs, all would benefit from training — tailored to the organization — on policy issues, policy analysis, and advocacy.

Quantitative' Research Proposal

Research Hypothesis

This part of the research presents an insight into the methodology applied in the gathering, assessment and understanding of the data collected for the research. It tries to present a detailed assessment of the study plan and tools applied in the actualization of this research.

The regulatory and supervisory officials play an important responsibility in the monetary system of any financial system through the circulation of strategies focused at assuring the careful supervision for assets and liabilities of banks and so assure the protection for investments of investors. They also encourage agreement to secure and excellent banking exercises, support the organization of an excellent internal command system in individual money deposit banks to stop the occurrence of forgeries, frauds and further monetary misconducts with make sure the constancy and provoking of public trust in the method.

Research Design

Research design presents the glue that keeps the research plan combined. A plan or design is applied to constitution the research, to demonstrate how all of the important sections of the research plan - the groups or samples, actions, programs or treatments, and approaches of task - work combined to attempt to focus the main questions of research.

Primary Data

Primary sources are the features on an issue upon which following studies or interpretations are based, anything from firsthand data like diaries, poems, records of court, and

interviews to research outcomes produced through surveys, experiments, ethnographies, and so on.

For the aim of this study, the researcher applied the underlisted primary study information:

- i. Questionnaires: An excellent questionnaire was applied, which enclosed a sequence of questions. A questionnaire has the benefit of giving questions in series.
- ii. Observation: Observation means that the condition of interest is tested and an individual or some mechanical device records the related actions, facts, or approaches.

Perfect information about what customers do in different conditions is presented through assessment. Assessment does not define why it occurred.

Secondary Data

Secondary sources, conversely, present an assessment or a restatement of primary sources. They commonly try to define or describe primary sources.

Research Instruments

The research instruments are decided in line with the style and aim of the study (Cabinet Office, 2002). This research was planned to be supported applying a survey structure therefore the implementation of a cautiously planned and standardised questionnaire that permits contestants to reply different collected questions.

Research Population

The population of a study is described as the survey of all items or aims that have the feature or that have the information of the phenomenon being researched. To decrease the laborious method of distributing questionnaires and performing individual interviews with the complete population in different institutions, a selection of chosen employees was performed in different organizations.

Method of Data Analysis

This relates the implementation of different statistical tools like mean score, percentages, and Chi-square test to create contrast, test the hypotheses and make conclusions; Percentages is a statistical method that applies 100 as its base. It is easy and creates contrast simple—percentages are applied in defining connection.

The test statistic for observing hypothesis is based on this amount.

$$X^2 = \frac{(O_i - E_i)^2}{E_i}$$

E_i

O_i = the observed frequency

E_i = the expected frequency

X^2 = the value of the random variables

| The Activity | 04-05-11 | 25-05-11 | 18-06-11 | 13-07-11 | 28-07-11 | 15-08-11 | 02-09-11 |
|---------------------------|----------|----------|----------|----------|----------|----------|----------|
| Writing research proposal | | | | | | | |
| Reading literature | | | | | | | |
| Finalize objectives | | | | | | | |
| Draft literature review | | | | | | | |
| Devise research approach | | | | | | | |

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|-------------------------------------|--|--|--|--|--|--|--|
| Draft research strategy and method | | | | | | | |
| Review secondary data | | | | | | | |
| Organize the interviews | | | | | | | |
| Develop interviews questions | | | | | | | |
| Conducting interviews | | | | | | | |
| Analyses data | | | | | | | |
| Develop questionnaire | | | | | | | |
| Pilot test and revise questionnaire | | | | | | | |
| Administer questionnaire | | | | | | | |

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|---------------------------------------------|--|--|--|--|--|--|--|
| Enter data into computer | | | | | | | |
| Analyze data | | | | | | | |
| Draft findings chapter | | | | | | | |
| Update literature read | | | | | | | |
| Complete remaining chapters | | | | | | | |
| Submit to tutor and await feedback | | | | | | | |
| Revise draft, format for submission | | | | | | | |
| Submit | | | | | | | |

A 'qualitative' Research Proposal

Target Audience

A questionnaire on the implementation of RIA was presented to 311 government agencies and departments with regulatory duties in 99 nations (Amugo, 2002). They were selected from an information bank on policy in improving and transition financial markets held at the Centre on Regulation and Competition at the University of Manchester. The questionnaire was distributed through post in the spring and early summer of 2003 (Kirkpatrick and Parker, 2004). A copy of the questionnaire can be achieved from the researchers. In different cases the questionnaire was delivered to more than one fact in every nation, as a possible cross-check on the correctness of the knowledge obtained.

Sample Design

The questionnaires finished and returned came from 40 nations – a nation response rate of 40% - with more than one expert in different sections replying. In 68 useable questionnaires were returned, presenting a general response rate from government experts of 17%.

Data Collection

Table demonstrates a list of the 40 nations from which questionnaires were returned with data of the number of returns from every nation. The regulatory actions covered contained financial, environmental and social policy, but with a favouritism towards financial regulation. The majority of the responses were from regulators of the system utilities, with 25 answers from

the power sector, and an additional 23 answers from the telecommunications part. Twenty answers were from other bodies of government. Among the 68 contestants, 23 held the position of director-general or similar, 22 were at senior management position, 12 came from middle supervision and 11 served as consultants or advisors to senior administration in regulatory institutions. Where different replies were obtained for a nation, these were contrasted but no essential variations were recorded (Amugo, 2002).

| |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Asia (9 countries)</i> |
| India, Jordan, Korea, Malaysia, Oman, Pakistan, the Philippines, Sri Lanka, Thailand, |
| <i>Africa (16 countries)</i> |
| Algeria, Botswana, Cameroon, Gabon, Ghana, Guinea Bissau, Kenya, Malawi, Mauritius, Morocco, Nigeria, South Africa, Tanzania, Uganda, Zambia, Zimbabwe |
| <i>Latin America and Caribbean (9 countries)</i> |
| Barbados, Brazil, Colombia, Jamaica, Mexico, Nicaragua, Peru, Uruguay, Venezuela, |
| <i>Transition Economies (6 countries)</i> |
| Albania, Estonia, Georgia, Lithuania, Moldova, Romania, |

The questionnaire had three major sections, covering RIA as a review system, RIA as a method, and RIA as part of an additional common plan for regulatory reform. The major questions were related with:

- Current awareness with RIA as an idea and Indonesian directions;
- The current implementation of RIA within the nation;
- Legal demands to apply RIAs and the continuation of published RIA assistance within government;

- The style RIAs take when applied;
- The methods applied within government when working RIA;
- Transparency of RIA, in terms of published documentation;
- Public consultation and contribution in exercises of RIA;
- RIA and extensive dogmatic reforms.

This direction was presented on the first page of the questionnaire in an effort to make sure reliable consideration of regulation and RIA through respondents.

Regulation: presents to the diverse set of tools through which governments set needs on business and people. Policies include orders, laws, and rules issued through all positions of government and through non-governmental bodies to whom governments have delegated regulatory powers (Amugo, 2002). Policies fall into three major groups: financial policies, social policies and environmental policies.

Regulatory Impact Assessment: a systematic method for reviewing the important effects (negative or positive) of a regulatory action. The review can relate to possible effects of a regulatory suggestion or the real effects of a current regulatory action.

| The Activity | 18-05-11 | 08-06-11 | 27-06-11 | 14-07-11 | 26-07-11 | 7-08-11 | 18-09-11 |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|-----------------|
| Writing research proposal | | | | | | | |

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|------------------------------------|--|--|--|--|--|--|--|
| Reading literature | | | | | | | |
| Finalize objectives | | | | | | | |
| Draft literature review | | | | | | | |
| Devise research approach | | | | | | | |
| Draft research strategy and method | | | | | | | |
| Review secondary data | | | | | | | |
| Organize the interviews | | | | | | | |
| Develop interviews questions | | | | | | | |
| Conducting interviews | | | | | | | |

| | | | | | | | |
|-------------------------------------------|--|--|--|--|--|--|--|
| Analyses data | | | | | | | |
| Develop questionnaire | | | | | | | |
| Pilot test and revise questionnaire | | | | | | | |
| Administer questionnaire | | | | | | | |
| Enter data into computer | | | | | | | |
| Analyze data | | | | | | | |
| Draft findings chapter | | | | | | | |
| Update literature read | | | | | | | |
| Complete remaining chapters | | | | | | | |

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|---------------------------------------------|--|--|--|--|--|--|--|
| Submit to tutor and await feedback | | | | | | | |
| Revise draft, format for submission | | | | | | | |
| Submit | | | | | | | |

Critical Evaluation

The first proposal relates the analysis and presentation of information collected from the questionnaires which were managed on the sample chosen. For the assessment, tables, analysis, bar charts, pie charts, graphs demonstrating styles and simple percentage will be applied to give information as the test of hypothesis shall be performed applying chi-square (X²) statistics (Kirkpatrick and Parker, 2004). The questionnaires which were planned to achieve the views of people on different concerns about a review of the supervisory and regulatory effect and the tasks of government actions in connection to the actions of Indonesian banks were managed to complicated units of the sample audience. To access the effect of supervision and regulation on Indonesian banks, by a review of the task of the Indonesian Banks, the level for opinion of people was observed applying a five-point Likert scale statements and the level of their replies calculated on the following level as demonstrated below:

Strongly agree (5)

Agree (4)

Strongly disagree (3)

Disagree (2) and

Undecided (1)

This proposal tries to reply the following questions:

- a. Are your results reliable with current information and ideas?
- b. Are there any latest results in the course of the assessments?
- c. What are the evidences of hypotheses before made up in the earlier section?

The data collected from the questionnaires were important based on the number of returned questionnaires to the people from the contestants and the position of coordination demonstrated through the contestants related in the common interview through telephone. From the data, four hundred and fifty contestants equalling 90% of the entire population size replied to the questionnaires and submitted finished copies of the questionnaires return to the researcher.

2

Critical Evaluation

The questionnaire replies assured that some understanding is there of RIA and its policies amongst regulators in different transition and developing financial markets. At the similar period, this consideration does not appear widespread or deep, with normally differences in information

between various agencies and government sections within the similar nation. The review also discovered that the implementation of RIA is a legal demand in ten of the 40 nations. This is may be anastonishingly high number presented the early common view that RIA was mostly an Indonesian phenomenon. Additionally, contestants in different nations, 30 out of the 40, declared that RIA was applied in some form although in most of these it was not a legal demand. Though, the formal status and coverage of regulatory review was discovered to differ significantly between nations.

The outcomes from the questionnaire present a helpful “snapshot” of the latest position of RIA in transition and developing nations as different caveats and qualifications must be connected to the results and so to any plan conclusions that might be made. Forty percent of the nations sampled returned completed questionnaires and it appears that different style of RIA is applied in the majority (75 per cent) of these nations. The coverage of RIA, both in terms of kinds of policy and number of policy proposals contained, emerges to differ extensively between nations. Some nations emerge to be applying RIA constantly to regulatory suggestions impacting financial, environmental and social strategies.

Summary

If RIA is to participate to financial improvement and scarcitydecline, it is essential that it is performed correctly with due consultation and without “capture” of the method through particular r interests. RIAs that only exist to electrify outsiders, like donor organizations, and rubber stamp every decision prepared through the executive are not worth the effort and cost. This research informs combined outcomes in this position, but arguably there exists a source for

the excellent application of RIA in different nations reviewed. We have discovered that where RIA is being applied, in different cases discussion has been included as section of the method. At the similar period, consultation has planned to be restricted to business sector and government, with customer interests and other interest group of civil society being under-represented in the process of consultation. Some regulatory officials in lower-income financial systems appear to create the outcomes of their consultations people. Lastly, only over a half of the nations from which finished review were obtained clear to have connected in a plan of regulatory command reform and RIA has been section of this method in different cases. In remaining nations, RIA emerges to have been applied on a “stand-alone” basis, which can restrict its effect in terms of developing regulatory command.

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