Debt Management Performance Assessment (DeMPA)

Albania

June 2011

The DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents the 15 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by a guide that provides supplemental information for the use of the indicators.

For additional information on the World Bank's Debt Management Technical Assistance Program, including more on the DeMPA Tool, please visit our website at: http://www.worldbank.org/debt

Abbreviations

DeMPA	Debt Management Performance Assessment
DMFAS	Debt Management and Financial Analysis System
DPI	Debt Performance Indicator
DSA	Debt sustainability analysis
GDB	General Directorate of Budget
GDPDM	General Directorate of Public Debt Management
GDT	General Directorate of Treasury
GOS	Guarantee, On-lending and Sub-national Borrowings (Division)
RDS	Registration and Debt Service (Directorate)
SOE	State-owned enterprise
SPC	Strategic Planning Committee
SR	Strategy and Risk (Directorate)
TSA	Treasury single account

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1. Executive Summary

From November 8 to 17, 2010, a World Bank team undertook a Debt Management Performance Assessment (DeMPA) mission to Tirana, Albania. [1] The mission's objective was to prepare a comprehensive assessment of government debt management functions by applying the DeMPA methodology. This report presents the results of the assessment, based on the December 2009 version of the DeMPA tool.[2]

The assessment reveals that Albania meets the requirements for the A score in 11 dimensions assessed, the B score in 5 dimensions, the C score in 12 dimensions, and the D score in 5 dimensions.[3] Of more than 50 countries assessed by the World Bank under the DeMPA program so far, Albania stands out as one of the few which has sound debt management practices in the largest number of areas as defined by the DeMPA methodology.

Government debt management is particularly strong in the areas of governance, strategy development, coordination with fiscal and monetary policy, and domestic market borrowing.

Areas for improvements are external borrowing (by moving to a more systematic planning and assessment of potential borrowings and creditors) and some parts of the operational risk management framework. Also there is no systematic tracking of foreign holding of the government securities issued in the domestic market. The latest eurobond issue highlighted that the decision-making process for external market borrowing is rather cumbersome.

Compared to the results of the first DeMPA exercise in April 2007, clear improvements are evident in the quality of the debt management strategy document, the involvement of legal advisors during the negotiating process of external borrowing, and the management of operational risks.[4]

[1] The mission team comprised Mizuho Kida (PRMED), Tomas Magnusson (BDM) and Greg Horman (BDM).
[2] The first DeMPA was undertaken in April 2007.
[3] Two dimensions (use of derivatives and non-financial public sector debt reporting) were not scored.
[4] Since April 2007 when a first draft of the DeMPA tool was tested, Albania being one of the pilot countries, the tool has been substantially revised, making it impossible to compare earlier scoring for each dimension with this assessment.

2. Background

2.1 Country Background and Recent Developments

Albania began its transition in 1991 as one of the least developed post-communist economies in Europe. After the initial collapse of GDP in 1991 and 1992 by more than 30 percent, the country grew strongly from 1993 to 2008 with average growth rates of 6 to 7 percent per year. By 2009, Albania reached middle-income status, fully graduating from IDA to IBRD and completing its EU membership application. However, with per capita GDP of less than USD 7,000,[5] Albania remains among the poorest EU-aspirant countries.

Albanian economy is highly dependent on remittances. Sectors that rely on remittances—construction, wholesale and retail, and other services—together account for over 60 percent of the country's GDP and have been the backbone of the country's strong growth. Large capital inflows (remittances, official assistance, and some foreign direct investment) have resulted in a steady appreciation of the country's currency, the lek. Despite growth in re-exports of manufacturing goods to larger EU producers and, more recently, minerals exports (chromium, iron, copper, and others) to China, the country has continued to run current account deficits of about 4–5 percent of GDP since the late 1990s. In 2008, the current account deficit worsened to over 16 percent of GDP mainly reflecting an ambitious public investment program.

Albania has also run persistent budget deficits—of about 10 percent of GDP in the late 1990s, which have been reduced to about 6 percent of GDP in the early half of the 2000s. Poor tax collection and persistently optimistic revenue forecasts, combined with weak expenditure controls, have been blamed for the persistent deficits.[6] The government's fiscal position improved markedly between 2005–07 following tax reforms that reduced the overall budget deficit to around 3-4 percent of GDP.[7] The deficit has worsened to over 6 percent of GDP in 2008 owing to higher capital spending, mainly on road projects.

When the financial crisis hit in the late 2008, the lek depreciated sharply, reflecting both investors' reaction to external events as well as their concern over Albania's external and domestic imbalances. The currency continued to depreciate in 2009 as the recession in key trading partners—Greece and Italy—led to falling exports and sharp drop in remittances. The authorities responded to the ensuing economic slowdown with monetary loosening and considerable fiscal stimulus. Albania avoided a recession by growing 3 percent in 2009 and an estimated 2.8 percent in 2010. However, the public debt has substantially increased.

[5] At purchasing power parity exchange rate in 2009.
[6] World Bank Albania Country Assistance Strategy, January 2006.
[7] Since 2005 the government lowered the rates of corporate profit tax, small business taxes, and employer's social insurance contributions, and abolished customs tariffs on machinery and equipment imports. Since 2007, the government introduced a single 10 percent rate of personal income tax and further reduced corporate income tax also to this level (from 20 percent). These tax cuts have helped to improve tax collection rates, which suffered from poor administration, tax evasion, smuggling and fraud (IMF Albania Article IV, July 2010).

Total public sector debt in Albania reached 59.7 percent in 2009—practically at the country's legal limit of 60 percent of GDP. Of this, domestic debt was 36 percent, and external debt (including guarantees) was 24 percent.[8] [9] The average maturity of domestic debt is still relatively low at 1.1 years, as at the beginning of 2010. The Ministry of Finance has signaled that one of its medium-term objectives is to support further development of the domestic market, so as to enable an extension of the yield curve and a reduction in the government's refinancing risk. The Bank of Albania is cooperative towards that goal. Both entities, however, agree that a variety of reforms, including to the pensions system in Albania, are necessary to grow the investor base for long-dated government securities. Similarly, greater macroeconomic stability is likely to be a pre-requisite for more active and durable non-resident participation in the market.[10]

In the external portfolio, the share of non-concessional borrowing has risen since 2008. The latest World Bank-IMF Debt Sustainability Analysis has shown that, given the authorities' current spending plan, the debt ratio would continue to grow into the mid-60 percent of GDP by 2015.[11] It argued that to bring within credible reach the government's goal of reducing public debt to 50 percent of GDP by 2013, the government needed to tighten fiscal deficits early and to lower costs and risks in the debt portfolio.[12]

2.2 Debt Management Performance Assessment

The Debt Management Performance Assessment (DeMPA) comprises a set of 15 debt performance indicators (DPIs), which aim to encompass the complete spectrum of government debt management operations, as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity and institution building, the performance indicators do stipulate a minimum level that should be met. Consequently, if the assessment shows that the minimum requirements are not met, this clearly indicates an area requiring attention and priority for reform.

The DeMPA focuses on central government debt management activities and closely-related functions, such as the issuance of loan guarantees, on-lending, cash flow forecasting, and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt portfolio, including implicit contingent liabilities (such as liabilities of the pension system)

[8] IMF Article IV dated October 2010, Table 1.

[9] According to the authorities' latest debt bulletin, dated September 30, 2010, government guaranteed debt was 19.4% of the total public external debt.

[10] To-date, most non-resident participation has been by the non-Albanian banking-group partners, including parents, of the banks operating in Albania.

[11] IMF Article IV dated October 2010 showed the debt ratio could reach 70 percent of GDP by 2015, but the subsequent update has corrected the estimate downward to 63.8% of GDP. The latter is also in line with a recent DSA carried out by the World Bank for its social development policy loan operation.

[12] In keeping with the objective, the authorities have successfully issued a eurobond (EUR 300 million) for the first time in late October 2010 to retire more expensive short-term syndicated loans. The authorities plan to use two thirds of the issue to repay an expensive EUR 200m syndicated loan, contracted in mid-2009, and the rest to retire domestic Treasury bills with maturities of three and six months. The loan refinancing is estimated to save the government 1 billion lek a year because of the lower interest rates (EIU Country Report: Albania, November 2010).

or the debt of state-owned enterprises (SOEs), if these are not guaranteed by the central government.

Each DPI has one or more dimensions, and each dimension is assessed separately. The scoring methodology assesses each dimension and assigns a score of either A, B, or C based on the criteria listed. The evaluation starts by checking whether the minimum requirement for that dimension has been met, corresponding to a score of C. Meeting the minimum requirements is the necessary condition for effective performance under the dimension being assessed. If the minimum requirements set out in C are not met, then a score of D is assigned. In the cases where a dimension cannot be assessed, a score of "N/R" (not rated or assessed) is assigned. The A score reflects sound practice for that particular dimension of the indicator. The B score is an intermediate score, falling between the minimum requirements and sound practices.

2.3 Summary of Performance Assessment

Performance Indicator		Score
Governance and Strategy Development		
DPI-1	1. Legal Framework	B
DPI-2	1. Managerial Structure: Borrowing and Debt-Related Transactions	A
	2. Managerial Structure: Loan Guarantees	A
DPI-3	1. Debt Management Strategy: Quality of Content	A
	2. Debt Management Strategy: Decision-Making Process	A
DPI-4	1. Evaluation of Debt Management Operations	C
DPI-5	1. Audit: Frequency	C
	1. Audit: Appropriate Response	B
Coordination with Macroeconomic Policies		
DPI-6	1. Fiscal Policy: Provision and Quality of Debt-Service Forecasts	B
	2. Fiscal Policy: Availability and Quality of Information on Key Macro Variables and DSA	A
DPI-7	1. Monetary Policy: Clarity of Separation between DeM and Monetary Policy Operations	A
	2. Monetary Policy: Regularity of Information Sharing	A
	3. Monetary Policy: Limited Access to Central Bank Financing	C
Borrowing and Related Financing Activities		
DPI-8	1. Domestic Borrowing: Market-Based Mechanisms and Preparation of a Borrowing Plan	A
	2. Domestic Borrowing: Availability and Quality of Documented Procedures	A
DPI-9	1. External Borrowing: Borrowing Plan and Assessment of Costs and Terms	D
	2. External Borrowing: Availability of Documented Procedures	D
	3. External Borrowing: Involvement of Legal Advisers	A
DPI-10	1. Loan Guarantees: Availability and Quality of Documented Policies and Procedures	C
	2. On-lending: Availability and Quality of Documented Policies and Procedures	C
	3. Derivatives: Availability and Quality of Documented Policies and Procedures	N/R
Cash Flow Forecasting and Cash Balance Management		
DPI-11	1. Effective Cash Flow Forecasting	C
	2. Effective Cash Balance Management	C
Operational Risk Management		
DPI-12	1. Debt Administration: Availability and Quality of Documented Procedures for Debt Service	C
	2. Debt Administration: Availability and Quality of Documented Procedures for Data Recording and Storage	C
	3. Data Security: Availability and Quality of Documented Procedures for Data Recording and System and Access Control	D
	4. Data Security: Frequency of Back-Ups and Security of Storage	A
DPI-13	1. Segregation of Duties	C
	2. Staff Capacity and Human Resource Management	C
	3. Operational Risk Management, Business Continuity, and Disaster Recovery Plans	D
Debt Records and Reporting		
DPI-14	1. Debt Records: Completeness and Timeliness	B
	2. Debt Records: Registry System	C
DPI-15	1. Central Government Debt Data: Statutory and Mandatory Reporting Requirements	B
	2. Public Sector Debt Data: Statutory and Mandatory Reporting Requirements	N/R
	3. Debt Statistical Bulletin: Quality and Timeliness	D

3. Performance Indicator Assessment

3.1 Governance and Strategy Development

DPI-1 Legal Framework

Dimension	Score
1. The existence, coverage and content of the legal framework	B

The legal framework for central government debt management is included in (i) the Constitution, (ii) the Law on Government Loan, Debt and Loan Guarantees (2006), and (iii) the Law on Management of the Budgetary System (2007).

The Constitution clarifies that central government can take and guarantee loans and financial credits, but only "when so authorized by law" (Article 156). There is a requirement of the Council of Ministers[13] to present to the Albanian Parliament (the Assembly) a report on central government debt from the previous year (Article 158). The Constitution also regulates ratification of "international agreements." When international agreements concern (i) territory, peace, alliances, political and military issues, (ii) freedoms and human rights as are provided in the Constitution, (iii) membership of an international organization, (iv) undertaking of financial obligations by the Republic, and (v) approval, amendment and repeal of laws, the ratification must be done by law. An international agreement that has been ratified by law has superiority over Albanian laws that are not compatible with it (Article 122). The President signs international agreements (Article 92).

Even though international agreements are not defined in the Constitution, it would be clear from the above that international agreements are treaties under public international law.[14]

The Law on Government Loan, Debt and Loan Guarantees provides clear authorization to the Minister of Finance (or the Acting Minister) to borrow and issue loan guarantees on behalf of the central government. The Minister is also authorized to repurchase debt and to enter into derivative contracts, provided they are in compliance with the debt management strategy. By Article 9 of the Law, central government borrowing is restricted to the following purposes: (i) to finance budget deficit, (ii) to finance temporary lack of liquidity, (iii) to refinance the debt, (iv) to finance payments required under guarantees, (v) to finance cost related to borrowing, and (vi) to finance cost caused by natural disasters and other emergencies.

The Law also includes the main goals or objectives of government debt management (i.e., to meet the government's funding requirement, taking into account the cost and risk in the medium- and long-term horizon, and to promote market development of government securities by increasing the instruments and enlarging the investor base), annual reporting requirement to the

[13] The Council of Ministers consists of the Prime Minister, deputy prime minister, and ministers (Article 95).
[14] Due to different interpretations of the meaning of "international agreements" within the Albanian legal community, it was decided that the latest eurobond issue also should be ratified by the Assembly.

Assembly on the central government debt, and a requirement to annually prepare a medium-term debt management strategy, to be approved by the Council of Ministers.

The annual report on the central government debt forms part of the larger report on budget execution, and includes a descriptive part of the debt management transactions over the year, and how those have affected the cost and risk of the total debt portfolio.

The Law on Management of the Budgetary System states that loans from international institutions, countries and "juridical persons" for capital investment projects, as well as loan guarantees, must be approved by the Council of Ministers. This Law also includes debt limits. The total public debt, including guarantees, shall not exceed 60 percent of GDP, and the annual budget law must set out limits for new borrowing over the budget year, total amount of central government borrowing, amount of new guarantees to be issued, and total amount of guarantees. When the proposed annual budget is submitted to the Assembly, the Minister shall provide a statement on contingent liabilities (Article 29).

External auditing by the State Supreme Audit Institution (also called the High State Control) is regulated both in the Constitution and in the Law on the State Supreme Audit Institution (1997). According to the Constitution, the State Supreme Audit Institution supervises the economic activity of all government institutions and public enterprises, as well as the use of government funds. The Law clarifies that the audit covers legality, regularity, financial management and performance.

To summarize, the legal framework provides clear authorization to borrow and to issue new debt, to undertake debt-related transactions, and to issue loan guarantees. In addition, it specifies for which purposes the executive branch of government can borrow, and includes clear debt management objectives, mandatory annual reporting to the Assembly covering debt management activities and issued loan guarantees (contingent liabilities). It also mandates external audits of government debt management activities, policies and operations. The requirements for the B score are met. For the A score, the primary legislation should also require a mandatory annual reporting to the Assembly of evaluation of government debt management activities and outcomes against the objectives and benchmarks established in the government's debt management strategy— a requirement that is lacking in the present primary legislation.

DPI-2 Managerial Structure

Dimension	Score
1. The managerial structure for central government borrowings and debt-related transactions	A
2. The managerial structure for preparation and issuance of central government loan guarantees	A

In 2008, the government established the General Directorate of Public Debt Management (GDPDM) within the Ministry of Finance. It is headed by a Director General who reports to the Deputy Minister of Finance.

GDPDM functions as both the principal debt management entity and the principal guarantee entity of Albania. Among its responsibilities are to manage central government debt (both domestic and external), annually prepare a medium-term debt management strategy on a rolling basis, prepare the annual debt management report to the Assembly, monitor and approve local government borrowing, issue loan guarantees, and on-lend borrowed funds.

It is organized into three directorates/departments, each headed by a Director. These are the Borrowing Directorate (front office), the Strategy and Risk Directorate (middle office), and the Registration and Debt Service Directorate (back office). Preparation of loan guarantees and on-lending, and monitoring and approval of local government borrowing are handled by a designated unit under the Strategy and Risk Directorate.

Borrowing in the domestic market is undertaken by issuance of Treasury bills and Treasury bonds through an auction process managed by Bank of Albania as agent for the Ministry of Finance. The approval of bids received in the auctions, however, is always decided by the Director General of GDPDM and the Minister of Finance.

Formally, the Minister approves all borrowings. According to the Director General, all borrowings and debt related transactions are steered by the debt management strategy, approved by the Council of Ministers, and he has never experienced any undue political interference in single borrowing decisions.

To summarize, the borrowings and debt-related transactions are steered by a formalized debt management strategy and undertaken by the principal debt management entity without undue political interference, and loan guarantees are also prepared and issued by this principal debt management entity. The scoring for both dimensions is A.

DPI-3 Debt Management Strategy

Dimension	Score
1. Quality of the debt strategy document	A
2. The decision making process, updating, and publication of the DeM Strategy	A

A medium-term debt management strategy for the total central government debt is prepared annually on a rolling basis since 2006. The strategy prepared and approved in 2009 covers the years 2010-2012. The strategy for 2011-2013 is still (November 2010) in draft form.

Strategy development is the responsibility of GDPDM, particularly its Strategy and Risk Directorate. The strategy for 2010-2012 is based on both quantitative and qualitative analyses, and the macroeconomic assumptions are based on the 2010 budget figures and the 2010-2012 medium term budget. The strategy is prepared in close cooperation with both the General Directorate of Macroeconomic and Fiscal Policies, and the Budget Directorate. In addition, the strategy proposal is submitted to Bank of Albania for comments. The Bank of Albania is given at least one month to provide its input, and after considering its comments, the final draft is sent to the Minister of Finance for his/her approval, and thereafter to the Council of Ministers for the final approval.[15] Once approved, the strategy is published on the web site of the Ministry of Finance. So far, the Minister has always approved the strategy proposal prepared by GDPDM.

The Strategy and Risk Directorate has developed its own analytical tool to quantify the cost and risk of alternative debt management strategies, which is based on the medium-term debt management strategy (MTDS) analytical tool developed by the World Bank and the IMF. In the strategy document for 2010-2012, four alternative strategies were prepared. The first is focused on short-term domestic borrowing denominated in lek, the second on long-term domestic debt denominated in lek, the third on medium-term (5 years) foreign commercial borrowing, and the fourth on long-term foreign borrowing. These four alternatives were then tested against a macroeconomic base-case scenario and a stress scenario[16] for the next five years, up to and including 2014, to quantify the cost and risk of the four alternatives. The risks covered in the model were the refinancing risk in the form of the average maturity on both the domestic and the total debt, the interest rate risk in the form of duration and the amount of debt service under the two scenarios, and the exchange rate risk in the form of both realized and unrealized exchange rate effects under the presented scenarios.

In addition to the quantitative analysis, a qualitative analysis was undertaken. In the 2009 strategy document, it was concluded that the second strategy alternative (focused on long-term borrowing in the domestic market) was not feasible due to the present low appetite for government bonds denominated in lek. A section in the strategy document analyzes the effect of the global financial crisis on the domestic lek market in 2009, highlighting the cautious attitude taken by the banking sector towards longer-term instruments and the flight to euro, concluding that domestic borrowing will continue being difficult during the first half of 2010.

[15] In 2009, however, the strategy was approved only by the Minister of Finance, a fact that that the Supreme Audit Institution made a comment on (see under DPI-5 Audit).

[16] In the stress scenario, the fiscal balance will deteriorate by more than 5 percent of GDP, the lek exchange rate will be subject to a depreciation of 30 percent against all other currencies, and the short-term lek interest rate will be subject to a shock of around 400 basis points.

Based on these analyses, the strategy proposal was to reduce the lek share of the total debt from 64 percent end 2009 to below 60 percent at end 2010, increase the duration of domestic debt from 0.8 years to 1.0 years, increase the duration of total debt from 3.0 years to 3.3 years, have all external borrowing denominated in euro (if feasible), and stop net borrowing from Bank of Albania. Finally, the strategy document included an instruction to GDPDM to start examining what can be done to improve the functioning of the domestic debt market, and give recommendations in this regard.

To summarize, the medium-term debt management strategy is based on the debt management objectives, covers the interest rate, refinancing and foreign currency risks, includes a description of measures aimed at supporting domestic debt market development, has realistic target levels for indicators of the interest rate, refinancing and foreign currency risks, which are based on a thorough analysis of costs and risks, identifying the vulnerability of the debt portfolio to shocks in market rates, and these analyses are clearly described, clarifying the assumptions used in the cost/risk model. The strategy proposal is prepared by the principal debt management entity, the views of the central bank on the proposal are formally obtained, and the proposal is approved by the Council of Ministers.[17] In addition, the strategy is updated annually, and is made publicly available. The scoring for both dimensions is A.

DPI-4 Evaluation of Debt Management Operations

Dimension	Score
1. Level of disclosure—in an annual report or its equivalent—of government DeM activities, central government debt, evaluation of outcomes against stated objectives, and compliance with the government's debt management strategy	C

On an annual basis, GDPDM prepares a report on the public debt and its composition, which is approved by the Council of Ministers and submitted to the Assembly as a composite part of the consolidated annual budget implementation report. According to Article 63 of the Law on Management of Budgetary System, this report must be submitted to the Assembly in June after the end of the budget year, and after approval it is published in the Official Gazette before end October.

The report submitted to the Assembly in June this year (2010) gives detailed information on the public debt and its composition at end 2009. It also describes the main debt management activities during the year, and how exchange rate and interest rate changes have affected the debt servicing. It includes the redemption profile and interest rate composition of the debt, as well as information about the main holders of the debt. This year's report particularly discusses the euro loan raised in the syndicated bank market during 2009, including its high interest rate.

To summarize, a report providing details of central government debt management and outstanding debt is submitted annually to the Assembly. The requirements for score C are met.

For higher scores, the report needs to include a discussion of the government's debt management strategy (e.g., information on the debt management objectives and the approved strategy to

[17] In 2009, however, the strategy was approved only by the Minister of Finance, see footnote 16.

achieve these objectives), as well as an evaluation of how the government's debt management operations during the year have complied with the debt management strategy.

DPI-5 Audit

Dimension	Score
1. Frequency of internal and external audit of central government debt management activities, policies, and operations, as well as publication of external audit reports	C
2. Degree of commitment to address the outcomes from internal and external audits	B

The State Supreme Audit Institution (also called the High State Control) is the supreme audit institution of Albania. Apart from regular financial audits, it has lately started to audit central government debt management activities. In 2009, it conducted a compliance audit of the debt management operations, which included a thorough check of compliance with the provisions in the Law on Government Loan, Debt and Loan Guarantees, and the regulations on issuance of Treasury bills and Treasury bonds. Among its findings was that the debt management strategy had been approved only by the Minister of Finance, and not by the Council of Ministers, as prescribed by the Law. The State Supreme Audit Institution also recommended that the portion of the auction amount that was open for non-competitive bids should be increased. The Ministry of Finance took actions to increase this portion, and also to address the other findings of the report.

The State Supreme Audit Institution takes part in the ongoing 2-year training program in public debt management audit arranged by the International Association of Supreme Audit Institutions (INTOSAI) Development Initiative. As part of this program, it is now auditing debt management reporting.

The Department of Internal Audit of the Ministry of Finance has not yet audited debt management activities. In 2011, however, it plans to audit the operations of GDPDM, including its internal control arrangements, risk assessments, human resources and internal organization.

To summarize, an external audit of government debt management activities has occurred within the past five years, and the relevant decision makers have shown a strong commitment to addressing the outcomes from this audit. In the first dimension of this DPI, the requirements for the C score have been met. In the second dimension, the requirements for the B score have been achieved.

For higher scores, internal audits of government debt management activities, policies and operations must be conducted annually.

3.2 Coordination with Macroeconomic Policies

DPI-6 Coordination with Fiscal Policy

Dimension	Score
1. Coordination with fiscal policy through the provision of accurate and timely forecasts on total debt and debt service under different scenarios	B
2. Availability of key fiscal variables and/or an analysis of debt sustainability, and the frequency with which debt sustainability analysis is undertaken	A

Anchoring fiscal policy is the requirement under the Law on Management of the Budgetary System, to maintain public debt, including guarantees, at or below 60 percent of GDP (article 58). More generally, the Law defines the process for fiscal planning. The General Directorate of Budget (GDB) and Macroeconomic Directorate, within the Ministry of Finance, are responsible for preparing the medium-term budget framework, which comprises the immediate fiscal exercise and for the following three budget years. The framework, in turn, is approved by the Council of Ministers and is published as part of the budget documentation. It includes estimates of growth, revenue, expenditure, and other key fiscal variables, which are shared with relevant entities.

The budget preparation process balances bottom-up information provided by line ministries, with top-down constraints and reasonability checks imposed by GDB and the Macroeconomic Directorate. For example, GDPDM delivers forecasts of debt service. The forecasts are based on assumptions about types of new debt to be contracted and disbursements of existing loans, and embed assumptions regarding foreign-exchange rates and interest rates. Those assumptions take account of guidance from GDB and the Macroeconomic Directorate, but ultimately reflect GDPDM's best judgment. GDPDM prepares alternative forecasts to examine the sensitivity of the debt service estimate to changes in foreign-exchange rates, interest rates, and financing choices.

The budget documentation includes a description of some important fiscal risks, although they are not quantified. Instead, the budget includes line items that relate to a contingency fund (i.e., an unallocated appropriation to cover possible risks relating to revenues and expenditures during budget implementation) and a reserve fund (i.e., an appropriation to finance unusual expenditures that cannot be forecast during budget preparation).[18] Under the Law, these together may not exceed 3 percent of total expenditure.

The Macroeconomic Directorate annually prepares a public finance sustainability analysis. This is done autonomously by the authorities. The analysis covers the time period of the medium-term budget and helps to inform preparation by GDPDM of the government's debt management strategy. It includes the macroeconomic variables relevant for a debt sustainability-type analysis for a middle-income and market-access country, with an assessment of the inter-temporal solvency of the government.

[18] The contingency fund, however, is usually depleted quite early in the year to properly serve as a buffer against risk.

In summary, the requirements for a score of B are met for the first dimension. A higher score is not possible owing to the lack of a full scenario analysis for the debt service forecast prepared by GDPDM. On the second dimension, the requirements for the A score are met.

DPI-7 Coordination with Monetary Policy

Dimension	Score
1. Clarity of separation between monetary policy operations and DeM transactions	A
2. Coordination through regular information sharing on current and future debt transactions and the central government's cash flows with the central bank	A
3. Extent of the limit to direct access of resources from the central bank	C

The separation of monetary operations and debt management transactions is mandated by the Law on the Bank of Albania (1997), and is realized in practice. Notably, the Law establishes that the principal objective of the Bank of Albania is to achieve and maintain price stability (article 3). The Law allows for the central bank to extend credit to the government, but only in local currency, for which in return it is issued treasury bills with tenors not to exceed six months. The government must pay a market rate of remuneration to the central bank on any borrowings from it. The amount of credit from the central bank is limited to 5 percent of the average of annual ordinary revenue of the government (*i.e.*, excluding borrowing, grants, and other forms of financial assistance) during the three immediately preceding fiscal years; in exceptional circumstances, the ceiling may be raised to 8 percent (article 30). All purchases of government securities by the central bank, even in open-market operations or the secondary market, are regarded as an extension of credit to the government and count against that limit. The limit may be exceeded only if deemed necessary for the implementation of monetary policy and then only if the securities are acquired in the secondary market (article 32).[19] The mission team was told that the government has not accessed financing from the Bank of Albania in the past two years and has adopted a policy not to seek such financing in future, even for accommodating short-term timing mismatches in its cash flows.

The Bank of Albania organizes auctions of the treasury bills and bonds in the domestic market. The procedures and decision-making process of these security issues are clearly regulated in two agency agreements between the government and Bank of Albania, which are publicly available.

Market participants report that the distinction between monetary policy-implementation and deficit-financing operations is well understood, and that information regarding transactions is provided. Although the Bank of Albania is habilitated to issue its own paper, it chooses to implement monetary policy through open-market operations of government securities. To have adequate inventory for that purpose, the central bank acquires treasury bills in the primary market on a non-competitive basis in volumes that are pre-announced to market participants, so

[19] Holdings of government securities by the Bank of Albania as investments for its staff superannuation fund do not count against the limit.

as not to distort the market.[20] The practice of the Bank of Albania is to roll over maturities of its holdings of treasury bills but not to increase them.

There is good coordination of information between the government and the central bank on the government's cash flows, including ordinary receipts, privatization receipts, proceeds of planned debt issuance, debt service payments, and other expenditures. The exchange of information is provided for under the Law (Article 24). The General Directorate of Treasury (GDT), within the Ministry of Finance, provides the central bank with forecasts of aggregate receipts, expenditures, and cash balances, on a monthly basis throughout the year. The Bank of Albania reports being satisfied with the reliability and timeliness of the forecasts, which are complemented by communication on a more frequent than weekly basis on any changes to them. GDPDM, also within the Ministry of Finance, maintains near-daily contact with the central bank regarding current and upcoming debt issuance transactions.

In light of these considerations, the requirements for scores of A are met for the first and second dimensions. For the third dimension, the requirements for a score of C are met. A higher score for this dimension is not possible because the tenor for which credit may be extended by the Bank of Albania to the government exceeds three months.

DPI-8 Domestic Market Borrowing

Dimension	Score
1. The extent to which market-based mechanisms are used to issue debt, the publication of a borrowing plan for T-bills and T-bonds, and the preparation of an annual plan for aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets	A
2. The availability and quality of documented procedures for local currency borrowing in the domestic market	A

The government of Albania borrows in the domestic market through treasury bills and treasury bonds denominated in local currency. Zero-coupon bills are issued with tenors of three, six, and 12 months; nine-month treasury bills may also be issued, but were last done in 2006. Coupon-bearing bonds are issued with maturities of two, three, and five years; a seven-year bond was last issued in 2008. Five-year bonds are floating-rate notes, for which the coupon is re-set annually, based on the yield on 12-month treasury bills averaged over the three immediately preceding auctions; all other bonds pay fixed coupons. In addition, as a one-off exercise to manage its foreign-currency cash flows, the government issued a nine-month bill denominated in euro in the domestic market in July 2010. All of these instruments are issued on arm's-length market terms; there is no captive placement with public or quasi-public investors. No instruments are specifically designed for retail investors, although retail investors may acquire bills and bonds directly or through commercial banks.

GDPDM, within the Ministry of Finance, is the entity responsible for raising domestic financing for the government. Domestic issuance is guided by an auction calendar. In early January, GDPDM publishes a calendar for the entire year, containing auction dates, tenors to be issued,

[20] The Bank of Albania dominates holdings of three-month and six-month treasury bills, with approximately four fifths of total outstandings.

and indicative amounts of each tenor. In particular, the calendar specifies the amount of each tenor to be absorbed by the Bank of Albania for its own portfolio, on a non-competitive pricing basis. Of the remainder, up to 50 percent in the case of bills, and 20 percent in the case of bonds, is reserved for allocation through non-competitive bids by individuals or institutions. The calendar is updated on a quarterly basis during the year, with a revision announced approximately two weeks before the start of the new quarter. Monthly updates to the quarterly calendar are also published, if necessary; any changes at the monthly stage are generally attributable to accommodating timing mismatches in the government's cash flows. All decisions to revise the calendar are documented within GDPDM through a procès-verbal. The calendar is published on the Reuters pages of the Bank of Albania, as well as (in Albanian) on the websites of the Ministry of Finance and the central bank, in print media, and on television. Market participants report being reasonably satisfied with the predictability of the calendar.

Bills are ordinarily issued on Tuesdays, and bonds on Thursdays. Customarily, three-month and 12-month bills are auctioned during the first week of the month, and six-month and 12-month bills during the third week. Two-year or five-year bonds are auctioned once per month, typically during the second week. In addition, three-year and five-bonds are auctioned once per quarter. To-date, all issuance takes the form of new securities; outstanding securities are not re-opened.

The announcement of a particular auction occurs at least one week ahead of time. On auction day, the reception of bids begins at 9h00 and closes two hours later. Competitive bids are submitted electronically by commercial banks through Reuters, while non-competitive bids are submit by postal mail or are lodged directly at the windows of the central bank. The minimum ticket for all bids, both competitive and non-competitive, is ALL 300,000 for bills and ALL 1 million for bonds. The maximum amount that can be submitted in a single non-competitive bid is ALL 30 million for bills and ALL 50 million for bonds. Commercial banks may submit for their own account up to three competitive bids in each tenor in the case of bills, and up to five in the case of bonds; they may submit any number of bids as client orders. Bills are auctioned under multiple-price format, while bonds are auctioned under single-price format. Bidding is done on a yield basis.

All bids are reviewed for technical compliance with the auction rules by an auction commission, consisting of one official from GDPDM and two officials from the Bank of Albania. The bids are then sorted in a schedule, which is delivered for examination to the director general and the head of the front office of GDPDM. The Minister of Finance does not see details of individual bidders, only the aggregate outcome. There is a tacit understanding with the Minister of Finance that GDPDM may proceed with releasing the results of an auction, without first obtaining his signature, if the results are unlikely to cause market comment, and his signature is secured afterward to finalize the issuance from a legal standpoint. The government may not accept more than the announced volume of each security, although it may exercise reserve pricing and allocate less; this occurs around three times per year. Once GDPDM notifies the Bank of Albania of its decision, the central bank posts the results on Reuters. This typically occurs around mid-day, and market participants report that the delay is satisfactory. The published results include, by security, the total offer, the total bid, and the volume accepted; the minimum, maximum, and weighted-average yields of accepted bids (in the case of multiple-price auctions); the market-clearing accepted yield (in the case of uniform-price auctions); and allocations to the

Bank of Albania, allocations to the market through non-competitive bids, and allocations through competitive bids.

The government does not prepare a formal prospectus or information memorandum for bills and bonds, but the equivalent is achieved through the agency agreements for bills and bonds between the government, represented by the Ministry of Finance, and the Bank of Albania. The agency agreements are publicly available (in Albanian) on the websites of the two entities, and contain detailed information on how auctions are conducted and settlement of transactions in government securities is to be effected. Market participants report that the agreements contain information sufficient to understand the terms and conditions, borrowing procedures, and criteria for access to the primary market. In addition, regulations concerning government securities are included in Law No. 9879, of 21 February 2008, on Securities (in particular articles 20 through 26).

In light of these considerations, the requirements for scores of A for both dimensions are met.

DPI-9 External Borrowing

Dimension	Score
1. Degree of assessment of the most beneficial/cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity)	D
2. Availability and quality of documented procedures for external borrowings	D
3. Availability and degree of involvement of legal advisers before signing of the loan contract	A

External borrowing by the government of Albania consists of multilateral and bilateral official credits, syndicated bank borrowing, and a Eurobond. The most important multilateral creditors to the government are the World Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Council of Europe Development Bank, and the Islamic Development Bank. The most important bilateral creditors are Germany (through KfW Development Bank), Italy, and Austria. Official credits have been the government's preferred source of external financing, as they typically offer funding on concessional or quasi-concessional terms, and are often accompanied by technical assistance. To-date, all official credits have been project-related loans; shifting toward budgetary-support, or program-based, financing has not been a priority for the government. The government has raised two syndicated bank loans, one in 2007 for EUR 200 million and another in 2009 for EUR 192 million. More recently, in 2010, the government issued its maiden Eurobond, totaling EUR 300 million. Entering the Eurobond market had been part of the government's plans since 2008, but actual issuance required extensive preparatory efforts, including obtaining sovereign credit ratings from Moody's and Standard and Poor's, as well as waiting for market conditions favorable for a successful launch. The proceeds of the issue will be used to retire the syndicated bank loan raised in 2009 and redeem some domestic debt due to mature in the near future. In a usual year, according to the authorities, around 10 to 20 new external loans are contracted.

Within the Ministry of Finance, GDPDM is the entity responsible for raising external financing. The identification of external financing needs begins with a process by which line ministries put forward a proposal for an investment project to be undertaken in their sectoral area. These proposals are reviewed by the Strategic Planning Committee (SPC), comprising the Prime

Minister and other ministers, in light of the overarching strategic priorities of the government. Once a project is approved by SPC, the responsible line ministry requests financing for it from GDPDM, which in turn confirms with the General Directorate of Budget that the project has been validated as part of the government's medium-term budget.

GDPDM evaluates the terms and conditions of financing available for the project from official creditors, or through other sources, such as syndicated bank loans. GDPDM works within the preferences of individual creditors in respect of their priority sectors, which are already known through memoranda of understanding and protocols of cooperation.[21] The analysis of cost-effectiveness and other characteristics of financing available across the range of creditors, however, remains *ad hoc* and is not systematically documented.

Once GDPDM identifies its preferred creditor, a financing request is sent. When the draft financing agreement is received, it is reviewed by the negotiating team. The team consists of the Director General, the head of the front office, the head of the middle office (if the loan has an on-lending component), and the in-house counsel of GDPDM; occasionally the Deputy Minister of Finance, although to-date never the Minister of Finance; and a high-level official from the responsible line ministry.

Following negotiations with the creditor, the loan agreement is sent to the Council of Ministers for approval in principle. The Council of Ministers (or, in exceptional circumstances, the President) then grants a power of attorney to the Minister of Finance to sign the agreement. Following signature, the agreement is delivered to the Minister of Foreign Affairs, who subsequently presents it to the Council of Ministers for formal approval. At this point, the process of achieving effectiveness still continues. The Assembly must ratify the agreement, and the President must issue an implementation decree, which is published in the Official Gazette. Fifteen days later, the Minister of Justice issues an opinion on the effectiveness and enforceability of the agreement and the creditor is finally notified. The entire process from receipt of the draft agreement until notification to the creditor takes at least three months and often longer if delays are experienced within the government or on the part of the creditor.[22]

The procedures governing external borrowing are set forth in Law No. 9665, of 18 December 2006, on State Borrowing, State Debt and State Loan Guarantees (notably, article 26), and are complemented by the internal documented procedures of GDPDM. These procedures do not require the negotiating team to prepare a summary of the financial terms and conditions of the loan agreement. In practice, however, this happens rigorously. Immediately following the conclusion of negotiations with the creditor, the negotiating team prepares a terms sheet, which is distributed within GDPDM and is included with all deliveries of the loan agreement to the Council of Ministers, the Minister of Finance, the Minister of Foreign Affairs, the Assembly, the President, and the Minister of Justice.

[21] These include the Country Partnership Strategy with the World Bank.

[22] Due to different interpretations of the meaning of "international agreements" within the Albanian legal community, it was decided that the latest Eurobond issue also should be ratified by the Assembly. See DPI-1 for more detail.

In summary, the minimum requirements for the first dimension are not met, as a formal yearly borrowing plan which includes an assessment of the cost-effectiveness of terms and conditions obtainable across all potential external creditors is not regularly being prepared. The minimum requirements for the second dimension are also not met. Notwithstanding that a terms sheet is, in fact, prepared by the team negotiating an external loan, the requirement to do so is not included in GDPDM's documented procedures for external borrowing; the score for this dimension would immediately rise to A if it were. The score for the third dimension is A, as legal advisers are involved at every stage of loan negotiations, even before they formally commence.

DPI-10. Loan Guarantees, On-lending, and Derivatives

Dimension	Score
1. Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees	C
2. Availability and quality of documented policies and procedures for on-lending of borrowed funds	C
3. Availability of a debt management system with functionalities for handling derivatives, as well as availability and quality of documented procedures for the use of derivatives	N/R

The Law on Government Loan, Debt and Loan Guarantees sets out procedures for issuing government guarantees and for on-lending. The procedures manual for GDPDM describes the procedures in detail.[23] The amount of guarantees that can be issued is specified in the annual budget law. The amount of on-lending is limited by the borrowing of the government that is approved in the budget. Although there is no specific guideline restricting sources of on-lent funds, in practice on-lending is made exclusively from earmarked external funding. The Guarantee, On-lending and Sub-national Borrowings (GOS) section in the Strategy and Risk Directorate is responsible for processing the guarantee requests and also for drafting on-lending agreements.

For guarantees, every borrower seeking a guarantee submits a written request accompanied by economic and financial documentation to GOS which conducts a risk assessment based on this documentation and gives a recommendation to the Minister. The Minister then issues the guarantee. There is no requirement for a risk fee to be charged. For on-lending of external funds, GOS will draft on-lending agreements based on the original loan agreements. There is no provision in the written procedure to calculate fees covering the credit risk. In many cases, GOS will consider changing the terms and conditions of the original loan agreements into more favorable terms and conditions for borrowers (e.g., lower interest rates, longer maturity for repayment to the government) in the on-lending agreements.

There is no written guideline describing how credit risk should be assessed in evaluating guarantee and on-lending proposals, although GOS documents the methodology employed in

[23] According to the Law, the Minister of Finance is authorized to on-lend funds or issue guarantee to "a beneficiary within the Republic of Albania" "for the funding of a project or for public investment" (Article 26), or "financing of investment projects, import or other activities" (Article 30). In practice, guarantees are mainly issued to SOEs while on-lending is used for projects with earmarked external funding. Guarantees have not been used since 2007.

evaluating the risk for each individual proposal and monitor the risk throughout the life of the loans.

The score for first dimension is C as documented procedures are in place for issuing guarantees. A higher score would require that the documented procedures describe the methodology to be applied for evaluating the credit risks (score B) and for calculating guarantee fees covering the credit risk (score A).[24] The score for the second dimension is C. A higher score would require that the written procedures describe the methodology to be applied for evaluating the credit risk (score B) and require charging on-lending fees covering the credit risk (score A). The third dimension is not scored, since derivatives are not used in debt management in Albania.

3.3 Cash Flow Forecasting and Cash Balance Management

DPI-11 Cash Flow Forecasting and Cash Balance Management

Dimension	Score
1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	C
2. Effectiveness of managing the aggregate cash balance in government bank account(s), including the integration with the domestic debt borrowing program	C

GDT within the Ministry of Finance is the entity primarily responsible for government cash management in Albania. In carrying out its functions, it works closely with GDPDM, also within the Ministry of Finance, and the Bank of Albania.

Budget execution, including cash management, is governed by Law No. 9936, of 26 February 2008, on Management of the Budgetary System in the Republic of Albania. In accordance with the law (article 49), the government must prepare a cash plan. At the start of each fiscal year, line ministries send forecasts of cash flows to GDT, which in turn aggregates them into the cash plan, with monthly time-steps, for the entire year. The plan presents forecasts of aggregate receipts, expenditures, and cash balances, and is revised on a regular basis throughout the year. The initial and revised forecasts are shared with GDPDM, the Bank of Albania, as well as the General Directorate of Budget and the Macroeconomic Directorate. At the end of each month, the forecast for the month to come is updated and further broken into weekly time-steps.[25] This more granular forecast is shared with GDPDM but not with the central bank. Every month, an analysis of the forecast versus actual outturn is performed. To-date, GDT and GDPDM have been satisfied with the quality and reliability of the cash flow forecasts, as has the central bank.

Cash balance management, although not passive, is limited. Law No. 8269, of 23 December 1997, on the Bank of Albania, allows for the central bank to accept deposits from the government (article 28). These take several forms. First, the government maintains a cash reserve of ALL 500 million at the central bank. Second, the government's treasury single

[24] The procedures manual already requires monitoring of the credit risk throughout the life of the guarantee.
[25] GDT intends to move toward forecasts with weekly time-steps over the coming quarter and possibly daily time-steps, during 2011.

account (TSA) is also domiciled at the central bank. GDT targets a minimum balance of ALL 1 billion in the TSA, although it aims to avoid large excess balances. By mutual agreement of the Ministry of Finance and the Bank of Albania (as opposed to a legal interdiction), neither the cash reserve nor the TSA is remunerated. Third, GDT places some funds on term deposit at the central bank. These deposits have tenors of between one week and one month, are capped by agreement at ALL 10 billion in total, and are remunerated. The rate of remuneration is a market-based rate, determined by interpolation between the one-week repo rate and the yield on three-month treasury bills, subject to a ceiling of 25 basis points above the one-week repo rate. In the event that the balance of the TSA is forecast to fall below the target of ALL 1 billion, DGT will request GDPDM to increase the volume of treasury bills to be issued, auctions of which on a fortnightly basis.

In light of these considerations, the minimum requirements for both dimensions of this indicator are met. Scores higher than C are not possible, owing to the lack of weekly forecasts of overnight cash balances and the absence of transactions on a weekly basis to maintain the government's cash balance at its target.

3.4 Operational Risk Management

DPI-12 Debt Administration and Data Security

Dimension	Score
1. Availability and quality of documented procedures for the processing of debt service	C
2. Availability and quality of documented procedures for debt data recording and validation, as well as storage of agreements and debt administration records	C
3. Availability and quality of documented procedures for controlling access to central government's debt data recording and management system	D
4. Frequency and off-site secure storage, secure storage of debt recording and management backups	A

The Registration and Debt Service (RDS) Directorate is responsible for both maintaining data on central government debt and for processing debt service payments. The GDPDM's procedures manual provide detailed guidelines for processing of debt service for both external and domestic debt.

For external debt, RDS checks payment advices from creditors against the information in the Debt Management and Financial Analysis System (DMFAS) database before sending payment orders to the Bank of Albania. The payment orders are prepared manually and are subject to a three-person authorization process. Payments are made by the due date.

For domestic debt, the Bank of Albania conducts the debt servicing of Treasury bills automatically at maturity by crediting the bank accounts of the securities' holders and debiting

the TSA.[26] The payment is not initiated by any payment order from RDS. For Treasury bonds, RDS prepares a payment order for the Bank of Albania for the total amount of interest payments in the coming month. The payments on the domestic debt are detailed on the TSA statements presented by the central bank, and RDS checks the statement with its own information on domestic debt servicing.

Regarding storage of loan agreements and debt administration records, the Law on Government Loan, Debt and Loan Guarantees and GDPDM's procedures manual provide detailed guidelines. Original signed loan agreements for external debt are archived in the Ministry of Foreign Affairs, while copies are stored in GDPDM and the Protocol Office of the Ministry of Finance.[27] All debt administration records (both domestic and external) are stored in the Protocol Office, while copies are kept in GDPDM.[28]

The debt recording system is DMFAS for external debt and Excel files for domestic debt, on-lending, and guarantees. The GDPDM's procedures manual referred to above provides separate guidelines for data entry for different types of loans. Data entry is assigned to the relevant division within GDPDM (external, domestic, guarantees and on-lending). Data entries are made by specialists in the divisions and checked by both the head of the respective division and by the head of RDS.

Access to DMFAS and Excel files is protected by usernames and passwords, but there are no internal written procedures for controlling access to the debt records. The IT department of the Ministry of Finance—in discussion with the head of RDS—assigns access rights in DMFAS following the DMFAS user manual. The head of RDS has access to the entire DMFAS system, while other staff members have access to specific parts of the system. The head of RDS sends a written instruction to the IT department whenever access rights need to be modified. There is no written procedure for controlling access to domestic debt data in the Excel files.

Backups of debt records (DMFAS and Excel files) are taken daily on the Ministry of Finance's servers.[29] The daily backups are kept in a secure location in the ministry, and duplicate backups are sent to a dedicated disaster recovery site outside the ministry's main building. Weekly backups of the debt records are also taken, with duplicate backups stored in the disaster recovery location. The disaster recovery location is tested every 6 months. The last test was conducted 3 months ago.

The score for the first dimension is C. While all the required control procedures are in place, electronic payment orders would need to be in place for processing external debt service

[26] Bank of Albania operates the registry system of holders of government securities—bills and bonds. RDS and Bank of Albania verify consistency of the registry records monthly. See DPI-14 for more detail.

[27] Original loan agreements for external debt are kept in the Archives of Ministry of Foreign Affairs (MoFA) as they are considered as records of international treaties. The team did not inspect the MoFA's Archive separately, but was told by the GDPDM staff, with whom the team was visiting the Protocol Office in the MoF, that the Archive of MoFA was secure and protected from the elements.

[28] Both filing cabinets in GDPDM and the Protocol Office of the Ministry of Finance are secure. After two years, all documents in the Protocol Office are moved and stored in the government's central archive.

[29] Incremental backups at the server are taken throughout the day—i.e., whenever changes are made to the debt data on the local PC.

payments for a higher score. The score for the second dimension, documented procedures for debt recording and validation, is also C. A higher score here would require regular updating of the procedures manuals.[30] The score for the third dimension, on the control of access to the system, is D. To meet the minimum requirement for score C, documented internal procedures would need to be in place for controlling access to the debt recording system. The score for the last dimension, on data storage and system back-ups, is A. The system is backed up daily, and copies of the backup are stored in a separate secure location.

DPI-13 Segregation of Duties, Staff Capacity, and Business Continuity

Dimension	Score
1. Segregation of duties for some key factors as well as the presence of a risk monitoring and compliance function	C
2. Staff capacity and human resource management	C
3. Presence of an operational risk management plan, including business-continuity and disaster-recovery arrangements	D

There is a clear separation of responsibilities between key debt management functions within GDPDM. Within the Borrowing Directorate, the domestic borrowing division is responsible for domestic debt issuance, and the external borrowing division is responsible for negotiating external loans. RDS is responsible for both recording government debt and arranging payments (see DPI-12 for detail). Within RDS, different staff members are responsible for arranging payments and for recording these payments in the DMFAS.

There is a separate directorate—the Strategy and Risk (SR) Directorate—that is responsible for risk monitoring and compliance; it reports directly to the Director General of GDPDM. Within SR, the Portfolio and Risk Control division is responsible for evaluating and monitoring risks and compliance of government's entire debt management operations, whereas the GOS division is responsible for monitoring and evaluating risks from government's guarantee and on-lending activities and from local government borrowing.

There are around 20 staff members in GDPDM. The staff members have from one to over 15 years of experience, with a median of 3–4 years of experience. Staff turnover is said to be low. GDPDM management considers staff number and capacity are adequate, although opportunities for additional training are always desirable. Job descriptions are available for each staff member and are updated to reflect changes in responsibilities of the staff member and/or those of the division. Each staff member has an annual training and development plan and an annual performance assessment.

There are a code of conduct and conflict of interest guidelines covering the entire civil service in Albania, to which the staff members of GDPDM sign up upon taking up their positions.[31] The conflict of interest guidelines, for example, specify that all civil servants of the "high and middle

[30]The current procedure manual is only 13 months old (dated October 2009). It is the understanding of the assessment team that, in such cases, because it is too soon to judge whether the procedure manual is regularly updated, this dimension cannot be scored higher than C.

[31] Law No. 9131, on the Rules of Ethics in the Public Administration, dated 8 September 2003, and Law No. 9367, on the Prevention of Conflicts of Interest in the Exercise of Public Functions, dated 11 May 2005.

management level" [32] (which covers directors of departments and general directorates) are obliged to make a periodic declaration of "private interests"[33] (which include active and passive ownership of shares or parts of capital) to the relevant authorities in the supreme audit institution (High Inspectorate of the Declaration and Audit of Assets). However, there are no separate code of conduct and conflict of interest guidelines specifically written for the staff of GDPDM.

Finally, there is no written guideline for operational risk management or a business continuity and disaster recovery plan, although there is an off-site secure storage of debt recording and management system backups.

The first dimension scores C. There is a sound separation of responsibilities between key debt management functions within GDPDM. A higher score would require that the staff members entering data and checking data do not belong to the same division but are "organizationally separate", and likewise for the staff members arranging payments and recording those payments. The second dimension scores C. There are sufficient and adequately trained staff members with formal job descriptions that are reviewed and updated periodically. A higher score would require that there is a set of guidelines which covers all GDPDM staff and which specifies how staff should behave in potential conflict of interest situations such as operating in the financial markets or dealing with financial institutions. The third dimension scores D since no written business continuity or disaster recovery plan was in place.

3.5 Debt Records and Reporting

DPI-14 Debt Records

Dimension	Score
1. Completeness and timeliness of central government debt records	B
2. Complete and up-to-date records of all holders of government securities in a secure registry system	C

RDS is responsible for maintaining up to date records of all central government debt. The debt recording system is DMFAS for external debt and Excel files for domestic debt, on-lending, and guarantees.[34] All central government's debt records are thus kept electronically, but not in an integrated fashion, however, the debt records are complete and accurate.

While domestic debt records are verified and updated within a one month lag (see below), external debt records in DMFAS are subject to lag of up to two months. This is because disbursement requests are sent by the project implementation units in line ministries directly to the creditors without information to the RDS, and confirmation from the creditors (disbursement advice) can take up to two month to reach the RDS.

[32] Defined in the Law No. 8549, on the Status of the Civil Servant.
[33] Defined in the Law No. 9367.
[34] Although on-lent loans are denoted in DMFAS as such.

The registry system of government securities is operated by the Bank of Albania on behalf of the government according to the State Debt law. The system is a two-tier system, in which banks licensed to conduct securities trading can act as custodians for their customers. In this case, the bank has two securities accounts with the Bank of Albania, one for its own purposes and one aggregate account for its clients (nominee account). Investors participating directly in the auctions are required to have a securities account directly in the registry system. Many investors participate in the auctions through the non-competitive "window" and the number of investors registered has grown from around 8,000 in 2008 to around 15,000 today. The registry system operates on the Delivery versus Payment principle, with T+2 settlement. The Bank of Albania verifies registry records monthly, both with the banks and the Ministry of Finance. The registry is audited regularly, but the current system (introduced a year and a half ago) has not yet been audited.

In September 2010, the government issued nine-month euro-denominated Treasury bills of EUR 25 million in the domestic market. The registry for this instrument is currently kept in an Excel file and is not integrated with the central registry system. Four domestic banks are holding these securities, and there is no secondary market trading of these securities. The central bank is prepared to integrate this "sub-registry" with the main registry, pending government's decision either to roll over this debt or to issue more. At present, the Bank of Albania does not consider it worthwhile to invest in integrating the sub-registry with the main registry, given the small share that this instrument represents in the market (0.0125 percent of domestic debt outstanding).

Access to the Excel file registry of euro-denominated Treasury bills is controlled by usernames and passwords, with two persons with "edit" rights (auction and transaction) and two others with "read-only" rights. A physical copy of the original (signed) registry is stored in the archives of the central bank, and duplicate copies are stored in the monetary operations office. Backups of registry records are taken daily at the server with duplicate backups stored in a dedicated disaster recovery location outside the central bank's main building.

Considering there are only four registered holders of these T-bills, no secondary market trading of these securities, and daily backups of the records are taken and stored in a secure location, the minimum requirements for this registry are met.

The score of the first dimension is B. There are complete debt records within a two-month lag for central government debt and guarantees. A higher score would require speeding up disbursement advice from some creditors. The score for the second dimension is C. A higher rating would require integration of the interim Excel-based registry with the main registry, and audits of the integrated registry system.

DPI-15 Debt Reporting

Dimension	Score
1. Meeting of statutory and contractual requirements of central government debt to all domestic and external entities.	B
2. Meeting of statutory and contractual reporting requirements for total non-financial public sector debt and loans guaranteed to all domestic debt and external	N/R

3. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt	D

SR is responsible for producing annual reports on government debt and debt management. RDS is responsible for producing quarterly debt bulletins and providing central and local government debt data to multilaterals. RDS meets the external debt reporting requirements of the World Bank's Debtor Reporting System in terms of content and timeliness.

RDS is responsible for maintaining records of local government debt but not of debt issued by state-owned enterprises (SOEs).[35] Since SOEs do not at present borrow externally, RDS does not report this debt to international financial institutions.[36]

Annual debt reports and quarterly debt bulletins are posted on the website of the Ministry of Finance within two months of the end of reporting period. These reports cover central and local government debt. For the central government, categories include external, domestic, and guarantees. External debt is broken down by maturity (long-term or short-term), currency, types of creditors, and types of interest rates. Domestic debt is broken down by maturity (weighted average maturity and the maturity profile), types of interest rates, and by holders of debt.[37] Guarantees are broken down by domestic and external, and the latter are further broken down by creditors.

For the first dimension, the government meets its statutory debt reporting requirements, as well as its contractual obligations to the IMF and World Bank within two months of the reporting period, warranting a score of B. The second dimension is not rated because there is no nonfinancial public sector debt apart from the central government external debt that needs to be reported. The third dimension is scored D. While debt statistical reports are produced on a regular basis, they are missing information on some of the basic risk measures such as holders of government securities by residency, and residual maturity of domestic and external debt.[38]

[35] The Ministry of Economy is responsible for collecting information on direct borrowing by the SOEs.
[36] The electricity SOE is said to have issued euro-denominated debt in the domestic market, which is not classified as external debt according to the definition of external debt in the IMF. Contractual reporting requirements of the IMF and World Bank cover only external debt and not domestic debt of the non-financial public sector (or, for that matter, of the central government).
[37] By main authorized banks and an aggregate category called "individuals". However, these were not broken down by residency and, consequently, there were no records on foreign holdings of government securities.
[38] The assessment was based on the latest debt statistical bulletin available at the time of the DeMPA mission ("Debt Indicators as of September 30, 2010"). Subsequently, the authorities have included information on holders of government securities by residency. However, the report is still missing the residual maturity of domestic and external debt.

Annex 1: Meeting Participants

Date	Organization	Names
Monday, November 8		
	World Bank Country Office in Albania	Ms. Kseniya Lvovsky, Country Manager; Mr. Erjon Luci, Country Economist
	Ministry of Finance, Office of Minister	Mr. Ridvan Bode, Finance Minister; Mr. Xhentil Demiraj, General Director of Public Debt Management; Ms. Milbana Tore, Director of Strategy and Risk Department; Ms. Kseniya Lvovsky, Country Manager; Mr. Erjon Luci, Country Economist; Bob Jelnick, US Treasury
	Ministry of Finance, Office of General Director of Public Debt Management	Mr. Xhentil Demiraj, General Director of Public Debt Management; Ms. Milbana Tore, Director of Strategy and Risk Department
	Ministry of Finance, Strategy and Risk Department	Ms. Milbana Tore, Director of Strategy and Risk Department
Tuesday, November 9		
	Ministry of Finance, Office of General Director of Public Debt Management	Mr. Xhentil Demiraj, General Director of Public Debt Management; Ms. Milbana Tore, Director of Strategy and Risk Department
	Ministry of Finance, Borrowing Department	Mr. Resmi Hibraj, Director of Borrowing Department; Ms. Milbana Tore, Director of Strategy and Risk Department
	Ministry of Finance, Strategy and Risk Department (One-lending and guarantee section, Portfolio Risk section)	Ms. Milbana Tore, Director of Strategy and Risk Department; Ms. Dhurata Hoti, Specialist; Ms. Dezdemona Lamay, Specialist; Ms. Blerina Nasko, Specialist
	Ministry of Finance, General Director of Public Debt Management	Mr. Xhentil Demiraj, General Director of Public Debt Management; Ms. Milbana Tore, Director of Strategy and Risk Department; Ms. Xhorlin Pojani, Legal Advisor; Sokol Nako, Office managing partner of Wolfe Theiss; Bob Jelnick, US Treasury
	Ministry of Finance, Debt Recording and Payments Department	Ms. Irena Gjika, Director of Debt Recording and Payments Department; Milbana Tore, Director of Strategy and Risk Department

Wednesday, November 10		
	Ministry of Finance, Office of General Director of Public Debt Management	Mr. Xhentil Demiraj, General Director of Public Debt Management; Ms. Milbana Tore, Director of Department of Strategy and Risk
	Ministry of Finance, Macroeconomic Policy Department	Mr. Endrit Lami, Director
	Ministry of Finance, Strategy and Risk Department (Portfolio and Risk Control section)	Ms. Jsijda Sinuari, Section Head; Ms. Vanina Jakupi, Specialist
	Ministry of Finance, Budget Department	Mr. Gentian Opre, Director of Budget Policy, Analysis and Programming
	Ministry of Finance, Treasury Department	Mr. Eduart Ypi, General Director; Ms. Gentian Opre, Specialist
Thursday, November 11		
	Ministry of Finance, Office of General Director of Public Debt Management	Mr. Xhentil Demiraj, General Director of Public Debt Management; Ms. Milbana Tore, Director of Department of Strategy and Risk
	Bank of Albania, Monetary Operations Department	Mr. Marjan Gjermeni, Director; Ms. Denalda Duro, Deputy Director
	Albania State Supreme Audit	Ms. Luljeta Nano, Head Auditor; Ms. Nikoleta Piranjani, Comptroller
	Internal Audit	Ms. Tatjana Begolli, Chief Officer
Friday, November 12		
	Ministry of Finance, Office of General Director of Public Debt Management	Mr. Xhentil Demiraj, General Director of Public Debt Management; Ms. Milbana Tore, Director of Department of Strategy and Risk
	Ministry of Finance, IT Department	Ms. Odeta Kromici, Director of IT Department; Ms. Irena Gjika, Director of Debt Recording and Payments Department
	Ministry of Finance, HR Department	Mr. Musa Hylco, Head of Human Resources; Ms. Milbana Tore, Director of Department of Strategy and Risk

	Bank of Albania, IT Department	Ms. Denalda Duro, Deputy Director; Mr. Alkid Demi, IT Specialist, Ms. Ardita Metsushi, Specialist
Monday, November 15		
	Market participant (1): Intesa Sanpaolo Bank	Ms. Elona Korini, Director for Managing Assets/ Liabilities
	Ministry of Finance, Office of Vice Minister	Mr. Nezir Haldeda, Vice Minister; Xhentil Demiraj, General Director of Public Debt Management; Ms. Milbana Tore, Director of Department of Strategy and Risk; Ms. Irena Gjika, Director of Debt Recording and Payments Department; Mr. Resmi Hibraj, Director of Borrowing Department
Tuesday, November 16		
	No meetings with counterparts	
Wednesday, November 17		
	Ministry of Finance, Office of Minister	Mr. Ridvan Bode, Finance Minister; Mr. Xhentil Demiraj, General Director of Public Debt Management; Ms. Milbana Tore, Director of Strategy and Risk Department; Mr. Erjon Luci, Country Economist
	Market participant (2): Raiffeisen Bank of Albania	Ms. Donalda Gjorga, Manager - Dealing Room Department); Ms. Rezarta Arapi, Senior Fixed Income Dealer; Ms. Anila Sallata, Senior Fixed Income Dealer