

FINANCIAL FRAMEWORK

This chapter identifies the financial mechanisms underpinning Albanian housing in the recent past and at present. It addresses several issues concerning different types of housing tenure and examines fiscal and monetary instruments in the context of housing finance. The first section aims at giving the main indicators of housing economics in Albania, namely housing provision, types of taxation and land administration. The second section examines finance systems, the role of foreign donors and the decentralization of housing finance. Social housing and allowances are discussed in the third section, which presents the main characteristics of the National Housing Agency from a financial point of view. The last section discusses the banking sector, public-private partnerships, housing affordability, housing maintenance and renewal.

Table 18. Comparative economic indicators, 2000*

Country	GDP (US\$ billion)	GDP per capita (in US\$)	GDP per capita in US\$ (in PPP)	Consumer price inflation (in %)	Current account balance (as % GDP)
Albania	3.8	970	2,468	-0.1	-5.6
The former Yugoslav Republic of Macedonia	3.7	1,704	3,237	10.0	-10.6
Bosnia and Herzegovina	4.2	1,114	2,994	3.0	-20.7
Yugoslavia	6.5 **	605	2,636	69.0	-18.6
Greece	109.8	10,410	15,680	3.2	-4.0

* EIU estimates.

**Based on the concept of social product, which excludes non-productive services.

Source: EIU Albania Country Report 2001, p.22.

A. Housing economics

The building industry and particularly residential construction represent an important sector of the national economy. The current socio-economic situation in Albania is not very favourable to existing housing. The prerequisites for housing financing such as banking, home loans and insurance services, business information (real estate) and financial security do exist, but do not seem adequately developed. Also, restricted government budget funds make it very difficult to provide for those who cannot provide for themselves. The pre-transitional phase in housing development was characterized by the provision of social housing mainly for the urban population. In the past 40 years (1959-1999) investment in housing was in the range of 4.3% to 6.6% of total investment in Albania. After 1975, the number of housing units built by the Government and by the voluntary sector declined due to an overall poor economic and unstable socio-political situation.¹

Damage to the housing sector during the period of unrest also contributed to an increase in housing demand. The destruction in 1997 increased the need for investment in the building industry and international reconstruction aid made construction once again a significant motor for recovery.² However, the multiplier effect in the construction industry is still rather low and local production is often replaced by imports. Sound financial management is one of the prerequisites for sound housing financing, so the lack of domestic savings is particularly worrying.

The current account balance stood at -8.9% in 1997, while in 2000 it stood at -5.6% of GDP.³ In January - June 2001 the current account balance stood at -7.2% of GDP, which is less than in Bosnia and Herzegovina (-17.1%), Croatia (-14.7%), Romania (-8.1%) and Slovakia respectively, but higher than

¹ Ministry of Public Works and Transport, 1999.

² The Economist Intelligence Unit, 2002.

³ Data: The Economist Intelligence Unit 2001.

in the Czech Republic (-4.3%), Hungary (-3%) and Poland (-5.2%).⁴ The stock of non-performing loans amounted to 39.8% of all short and long-term credits at the end of November 1997.

So far the Ministry of Public Works and Tourism and its successor, the Ministry of Territorial Development and Tourism, have been the main central government provider of public housing. Within the Ministry, the Department of Housing is "responsible for the preparation of housing policy according to the Government programme".⁵ The Ministry of Finance determines the budget funds for public housing. The share of public investment in housing as a share of total budgetary investment has been gradually reduced from 10% in 1996 to 1.2% in 1999 and 2.7% in 2002 (see table 19).⁶ However, in 2000, foreign resources were obtained from the World Bank and the Greek Government totalling \$1.7 million. No foreign financing has been recorded in 2001 and 2002 (Ministry of Finance data, table 19).

Table 19. Source of funds for public sector housing

Source of funds	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
External financing Special Drawing Reserves (in leks)	1084952	4842122	2813401	499911	200779	145622	538449	197352		
External financing by the WB (in \$)	1500002	7060086	4333206	724761	275882	196350	735176	263952		
External financing by the Greek Government (in EURO)								1467351		
Housing Budgetary Investments for NHA (in million leks)			2016	941	235	300	135	470	816	656
Subsidy for homeless for SB (in million leks)				300	670	720	610	160	160	0
Total housing expenditure	0	0	2016	1241	905	1020	745	630	976	656
Total budgetary investments (in million leks)			9793	9500	6059	9668	11918	13596	21239	24062
Total budgetary expenditures (in million leks)			86068	100227	93395	148919	148318	152137	167912	187566
Housing expenditure as a share of GDP			0.9	0.4	0.3	0.2	0.1	0.1	0.2	0.1
Housing investments as a share of budgetary investments				10	4	3.1	1.2	3.4	3.8	2.7
Housing investments as a share of budgetary expenditures			2.3	1	0.2	0.2	0.1	0.3	0.4	0.3
GDP (in million leks)			229793	280998	341716	460631	523339	539210	594346	657030

Source: MPW - Ministry of Finance, Tirana, Albania.

The minimum cost of living was set in 1992 at \$25 per month for a family of four.⁷ This was extremely low for a European country. The *Instituti I Statistikes* (INSTAT) survey on living conditions in 1998 recorded an average per capita income of \$306 (46,206 leks), down from \$500 (52,500 leks) in 1996.⁸ Some 149,000 families, or 20% of families, receive social assistance (see also sect. C).

Table 20. Prices and earnings (% change year on year)

	1995	1996	1997	1998	1999
Consumer prices					
Average annual index (Dec 1993=100)	120.1 (-7.8)	135.3 (-12.7)	180.2 (-33.2)	217.4 (-20.6)	218.2 (-0.4)
Earnings in budgetary institutions					
Monthly wage (leks)	8,745 (25.6)	10,491 (20)	10,491 (0)	13,234 (26.1)	15,527 (17.3)
Real wage index (Dec. 1995=100)	100 (18.5)	102.2 (2.2)	71.9 (-29.7)	83.5 (16.1)	97.5 (16.7)

Source: EIU Albania Country Profile 2001, p.42.

⁴ Data: UNECE, 2001a.

⁵ Ministry of Public Works and Transport, 1999:7.

⁶ Data: Ministry of Finance.

⁷ Andoni, 2000:27.

⁸ Ministry of Public Works and Transport, 2001b:5.

Land administration

The lack of investment in land development is partly due to unsettled land restitution and delayed compensation claims. As from the year 2002, State-owned land was expected to be moved to the local administration, i.e. municipalities. From the financial point of view, this was seen as a way of generating income at local government level, which in turn should enable the financing and development of primary and secondary infrastructure and housing development. However, this will not happen until a national valuation of land takes place, so as to establish realistic market prices for building land, in terms of unimproved land rent and economic rent. Arable land should also be valued.

Apart from land, other real estate such as residential buildings, garages, offices, storage space and similar public assets should be valued. This can create a basis for new sources of income for both central and local government. Generally, there seems to be a need for more real-estate services to assess the value of collateral professionally. Geographical information system (GIS) techniques are still not available in Albania and the registration and mapping of land are done manually. Anomalies such as the sale of illegally occupied land seem to exist. Public land is extremely scarce. The price of public land is about \$2/m² - \$4/m² (574 leks/m² - 1148 leks/m²), while the cost for an average 65m² flat is \$100/m² (14,348 leks/m²).⁹

Local government has been entrusted with the management of government land at municipal level. However, political interventions and unregulated legal rights regarding ownership from the communist era, all contribute to the confusion that exists in this sector. So with its hands tied, local government is still not an equal partner in the land administration business.

Taxation

Albania does not have a very diversified taxation system. An attempt is being made to create a taxation authority. Tax structures are being decentralized. Two types of taxes are collected at the national level:

- (a) Direct taxes, comprising personal tax and business tax; and
- (b) Indirect taxes, which include value-added tax (VAT) and excise duties.

Direct taxes include income tax, interest from banks, gambling tax, a tax on dividends and a tax on income from renting. However, it is generally held that the grey economy represents a high portion of the ongoing activities which escape taxation. Regarding income from rents, the tax is 10% of the monthly rent paid to the landlord by a private lessee. Should a company be the lessee, then it has to withhold the tax from the rent and declare it to the Government.

Business tax comprises a small business tax and profit tax. The former applies to those small businesses whose turnover is less than 8 million leks a year (\$55,700). It is levied as a fixed amount, depending on the type of industry, for the first 2 million leks (\$13,900). For the remaining 2 million to 8 million leks a 4% profit tax is applied. Companies with an annual turnover of 8 million leks or more pay a 25% profit tax.

Indirect taxes include VAT, at 20%, and excise duties. VAT is included in the prices of building materials. However, VAT is not charged when property is sold. The collection of excise duty is below the legal level, leading to a government revenue shortfall of 2.4 billion leks (\$16.7 million).¹⁰

The fiscal deficit of 10.5% of GDP in 1996 rose to 13.2% in 1997. In 2000 it stood at 9.1% with prospects for a further decrease. This is due to the broadening of the tax base and to the VAT increase to 20%. The fiscal deficit was covered by domestic financing (5% of GDP), together with external grants and concessionary borrowing (4.1% of GDP). The last two costing less than the first, they are expected to increase to 4.7% of GDP.¹¹

⁹ Andoni, 2000:54.

¹⁰ Data: The Economist Intelligence Unit, 2002.

¹¹ 2004 Council of Ministers, 2001:54.

Local governments have just started to realize the potential of various taxes that can be collected locally. At present, two types of taxes are levied at local government level: road taxes and revenue taxes from small businesses. Local governments should be empowered to levy taxes on all types of real estate and services.¹²

Real estate and local sales taxes do not figure in the collection schemes of local governments. A capital gains tax, a land tax and an inheritance tax are other options that could be considered. At present the 2% property tax (stamp duty) is levied on property sales. However, to reduce this tax, the true price of property is rarely declared. In the absence of a capital gains tax this is an easy way to reduce the amount of tax paid on the sale of residential property. In the meantime, the Government is losing a significant percentage of the revenue from this source. In order to support a policy of homeownership, the Government could introduce a differential (progressive) stamp duty ranging, for instance, from 0% to 5% according to the property price band and the type of client, e.g. first-time buyer, existing owner or property investor.

B. Housing finance systems

Due to a long period with a centrally planned economy and communist rule, Albania has only recently adopted financial instruments similar to those commonly used in other countries. This has an effect on the development of financial and fiscal instruments related to housing provision. The collapse of the pyramid schemes and an overall difficult macro-economic situation, contributed to a relatively underdeveloped system of market-based housing finance. Private sector banks were reluctant to finance housing. It is still difficult to establish reliable guarantees. The main reason can be seen in the absence of strong laws on lien execution in case of default as stated in the Report on financial issues of 4 May 2001. This problem has been noted and incorporated into the Strategy to improve/build up a sound housing finance system of the Action Plan for the Housing Strategy.¹³ The Government provides two major types of subsidies: grant and subsidy, the latter being income-based. Traditionally, public subsidies were financed through a mandatory tax imposed uniformly on all wage earners but spent only on the residents of public housing.¹⁴

The banking system is outdated and applies the principles of the old communist banking system. The World Bank, the European Bank for Reconstruction and Development and EU (PHARE programme) all found the banking system inefficient and burdened with bad credits and a low level of capitalization. Nor is the Tirana stock market, established in May 1996, functioning. Other intermediaries in the financial sector such as management companies, investment funds and private pension funds do not exist. From three commercial banks, the National Commercial Bank (NCB), the Rural Commercial Bank (RCB) and the Savings Bank (SB), Albania's banking sector has grown to 13 banks (12 private banks and SB, which is State-owned and is in the process of privatization).¹⁵

The banking system is dominated by commercial joint-ventures with a strong foreign partner and the State-owned Savings Bank (SB), which was established using the assets of the government insurance fund. SB succeeded in increasing its activity throughout the country and offered mortgage loans with acceptable terms even before the government subsidy programme. After the fall of the pyramid schemes and mainly due to the high default rates, the SB long-term loans activity ended. In 1992-1993 Albania received a World Bank loan (US\$ 10-15 million) with a zero interest rate and a 40-year-repayment period. This loan was partially used by the National Housing Agency in a way which was not in accordance with the agreement concluded with the World Bank and which does not guarantee its repayment.

With the exception of State subsidy programmes and housing finance extended by SB (up to 1998), there was no other significant source of long-term credits for housing purposes (mortgages) in Albania. The commercial joint-venture banks are not much involved in housing investment and mortgage

¹² PADCO, 2002:i.

¹³ Terms of Reference for the National Housing Strategy, Ministry for Public Works and Transport, 2001.

¹⁴ The World Bank, 1993:10-11.

¹⁵ Council of Ministers, 2001:7.

financing, as their loan conditions are unaffordable for a large part of society (high interest rate and low loan-to-value ratio). They deal mostly with savings and checking accounts or charge fees for currency exchanges, transfers and transactions. This situation is caused mainly by repayment insecurity, a slow legal execution process and incomplete mortgage legislation. The Income Tax Law does not provide any fiscal incentives for enterprises or private persons involved in housing construction or purchase. Several public enterprises built dwellings for their employees, but new housing construction of this type is very limited (600 – 800 dwellings in all). The total price of a new dwelling built by a private developer is therefore often paid on purchase from the buyer's own savings.

The only bank involved in the housing sector in a significant way is the Savings Bank established in 1992.¹⁶ Between 1994 and 1996 this Bank was very successful in providing home loans under favourable terms. After the fall of the pyramid schemes, the Savings Bank was no longer allowed to issue loans for housing on the recommendation of the Government and the International Monetary Fund (IMF). The only loans issued at the moment are those for homeless persons in the category 'tenants in other persons' properties'. Loans for other categories have not been approved by the Ministry of Finance. The total number of loans issued in 1997 was 150. New loans were stopped in 1998 and 1999, only subsidies were available in these two years, and were then resumed in the year 2000 with 250 new loans. In the period 1997-2000 some 200-300 families benefited from interest-rate subsidies on their loans. It cost the Savings Bank 14 million leks (\$97,600) to subsidize some 400 loans. Subsidies depend on the applicant's income. Those whose monthly income is less than 4,000 leks (\$28) pay no interest, those whose income is between 4,000 and 6,000 leks pay an interest rate equal to the current inflation rate and those whose income is over 6,000 leks (\$42) pay the market interest rate. According to the Savings Bank, most beneficiaries pay no interest. The grant issued for these loans is calculated according to Law No. 8030. The new owner has to pay the difference between the market price (for those who buy on the private market and not from the National Housing Agency) and the National Housing Agency value in cash. The loan covers the remaining value, on which the grant is payable according to Law No. 8030. The interest-rate subsidy depends on income. The grant, however, is not based on income, but on the size of the family and its total age. In 1999-2000 the grant could not exceed 740,000 leks (\$5,300) per family.¹⁷

Table 21. Deposit and lending rates, 1993-2001

Year	Deposit rate (%)	Lending rate (%)
1993	23	30
1994	16.5	20
1995	13.7	21
1996	9.1	28.8
1997	27.8	43
1998	16.5	25
1999	9.1	25.8
2000	7.7	23.7
2001	7.7	16.3*

Source: INSTAT Monthly Statistical Report, Table 7.

*An estimated average based on the first 11 months of 2001.

In February 2002, the Savings Bank's lending rate stood at 14%. Owing to its very favourable lending conditions, the Bank has few problems with non-performing loans. However, the issue of bad debts has been addressed by the agency set up by the Ministry of Finance to restructure bad loans.

Deposits at the Savings Bank amount to 80% of the total market. Savings deposits last year increased by 10% to 15%.

¹⁶ Ministry of Public Works and Transport, 1999

¹⁷ Andoni, 2000:55.

The total cost to the Government of subsidizing some 2626 contracts amounted to \$18.1 million (2.7 billion leks),¹⁸ which is approximately 64% of the total public investment budget for housing in the period 1996-2000.¹⁹

Table 22. Bank Assets Resolution Trust (BART) credit portfolio

	November 2001			December 2001		
	Number of borrowers	Amount in thousands of leks	%	Number of borrowers	Amount in thousands of leks	%
A. Classification of the BART credit portfolio						
Loan portfolio inherited from banks	18,574	32,415,818	100	-	-	100
Fully repaid loans	482	276,386	0.9	492	289,253	0.9
Restructured loans	126	723,980	2.2	128	1,214,643	3.7
Loans being restructured	152	586,462	1.8	167	620,362	1.9
Outstanding loans	17,814	30,828,990	95.1	17787	30,291,560	93.4
B. Defaulters in court proceedings						
Defaulters in court	2,575	4,618,154	14.2	2630	4,915,656	15.2
Defaulters in sequestration process	681	1,007,997		741	1,154	
Defaulters whose property has been sequestered	53	95,748		59	132,135	
Pending loans	15,239	26,210,836	80.9	15157	25,375,904	78.3

Source: Savings Bank Tirana.

One of the most salient problems is the lack of small and medium-size loans available to borrowers who are interested in maintaining, repairing or upgrading their living quarters. In most cases this would mean a loan for the renovation of individual flats or for improved energy efficiency. Also, loans should be available to improve and upgrade common areas and facilities. This lack speeds up the deterioration of the housing stock (as owners' equity) and reduces the value of the capital investment. It decreases the housing standard and living conditions of the present tenants as well.

The relatively underdeveloped banking system poses yet another problem. Namely, the lack of community-based banking (credit unions, revolving micro-credit funds etc.). There are no hometown banks available to service local small and medium-size enterprises, trade and housing associations, community organizations, farmers and other citizens. It is of the utmost importance to stimulate private savings through established banks so as to increase the basis for housing loans in the absence of other sources of financing (mortgage bonds, for example).

Foreign donors

Foreign banking institutions and governments have already offered help to the Albanian housing sector. In 1992-1993 the World Bank provided a loan of some \$10-15 million (1.02 billion to 1.5 billion leks). This was offered as a soft loan with zero interest and a payback time of 40 years. The aim was to finalize work on premises started between 1989 and 1992. While the Government wanted to tackle the problem of homeless people first, and since the definition of homelessness in Albania is quite vast, there was at some stage disagreement over the priorities between the World Bank and the Government. The World Bank stressed that it was willing to support housing if it could see a clear sign from the Government that it was tackling problems stemming from the lack of data, poor information structure and inexperience²⁰. All the World Bank loan funds have been disbursed.

At the end of 1997 and beginning of 1998, the Governments of Greece and Albania signed a memorandum of understanding regarding a long-term credit. This credit has been used for the homeless families that lost their properties in pyramid schemes. The terms of this \$17 million (2.6 billion leks) loan were: 5% interest rate in hard currency (the present rate is 1.7%), a payback period of 20 years and a grace period of 5 years. This is just part of a broader bilateral economic agreement signed in 1997 worth \$70 million. The loan has been disbursed in two parts. The first part consisted of 10% of the total amount

¹⁸ Exchange rate as of 1998.

¹⁹ Andoni, 2000:54

²⁰ Ministry of Public Works and Transport, 1999:11.

and was intended for housing of the most urgent cases. Some 164 existing flats have been bought (on condition that they were not more than 20 years old and that they were equipped with proper sanitary facilities and a sound roof). The remaining \$15.3 million (2.3 billion leks) is intended for the construction of 1,300 new flats of approximately 80 m² to 100 m² in five cities: Tirana, Durres, Vlore, Gjirokaster and Fier. The sale of these flats will be based on a loan contract. The terms of the loan are set by government decree No. 321/1999, as amended by decree No. 64/2001, with an interest rate equal of 7% in leks, repayment in 20 years, for households with a monthly income of not less than 6,000 leks/person.

Another foreign donor is the EU, which through its PHARE programme, gave some \$10 million (14.4 billion leks) for interregional development in a 40 km corridor along the Greek-Albanian border. The Albanian Government is hoping to become a member of the EU, and believes that signing a stabilisation and association agreement (SAA) with the EU might encourage foreign investors and donors in the future.

Decentralization of housing financing

Housing issues have been tackled mainly by the central Government so far. However, with the process of transition towards a market economy, it has been emphasized that local government ought to be given more responsibilities and duties in housing matters. Their main duty is to record evidence of the homeless families and persons, and to prepare the administrative documents required for financing their needs. Their second role is that of providing the National Housing Agency with public land for residential purposes. Local government has to approve urban plans and building permits for plots smaller than 0.5 ha and control the implementation of building regulations. There is much more space for improving the role of the local government particularly in financing and decision-making. Local government revenue covers only 5%-10% of gross expenses. The remaining 90% is financed from the State budget.²¹ The roles mentioned above are limited and mainly administrative. Any real authority of the local government as creators and proactive stakeholders in housing has yet to be seen.²² More decisions ought to be devolved to the municipality. Locally, this seems to be widely accepted, but it has remained unheeded so far.

C. Social housing and allowances

Social housing in Albania is in need of help, but at the same time the Government needs to accept responsibility for deciding for whom social housing is intended. Government intervention in the housing sector is based on the principles of a "fair" distribution of the housing stock.²³ The Government finances social housing with very restricted funds from the budget (see table 19). Social rented housing does not seem to be high on the Government's agenda. Bearing in mind that there is a vast number of people in persistent poverty and deprivation it would be appropriate if the Government took responsibility for providing sheltered homes, social rented accommodation and affordable housing for them.²⁴ Once the economic situation of these families improves, they could be asked to rent from the private sector, pay the market rent on the same property or even buy the property from the Government at market cost.

State support for "homeless" households

The goal of the Law on State Support for Homeless Families (No. 8030/1995) was to settle the financial obligations of the State towards those families on the "homeless" list that did not benefit from the privatization of public housing. The target beneficiaries were defined as all those families that had not benefited from the privatization of public housing except those that had benefited from the Law on Land (7501/1991); had bought land from the Government for building purposes before 1 January 1996; had their own dwelling equal to or bigger than current standards; or had been offered shelter by the local government and refused it. The Government intended to solve the housing problems of target

²¹ Beci, 2001:2.

²² Ministry of Public Works and Transport, 1999.

²³ Ministry of Public Works and Transport, 2001c.

²⁴ Many European countries still have high share of social rented accommodation in the total housing stock: the Netherlands 36%, Sweden 22%, Britain 20%, Austria 20%, Denmark 19% and France 18% (data: Council of Mortgage Lenders quoted in International Herald Tribune 2002, p.13).

beneficiaries that could not be directly dependent on State housing construction in a way more based on a credit mechanism and private housing development.

The main instruments included long-term loans with subsidized interest and the grants distributed through the Savings Bank. As a result of the weakness of the National Housing Agency in the management of public money, the Law sets limits to its activities, while transferring the main implementation responsibilities to the Savings Bank. The loan can be used for buying a house or land for housing construction (see also sect. B).

Decree No. 250/1996 as amended by Law No. 8647/2000 again gave first priority to the tenant households in houses that had been returned to their former owners. Within this category are also tenants who live in the houses of former emigrants or in buildings that risk demolition, victims of political persecution and other very special groups of tenant households. The local authorities are legally responsible for drawing up the "homeless" list to be approved by the municipal/commune councils. The Law came into force at the beginning of 1997, but due to the failure of the pyramid schemes in 1997, a high inflation rate (decrease in repayment capacity) and restrictions imposed by the International Monetary Fund, the programme for extending long-term loans through the Savings Bank was stopped.

The first article of the last amendment (Law No. 8647/2000) confirms the Government's promise to offer a National Housing Agency dwelling to all households living in buildings returned to their former owners (category A, currently 5,500 households). The dwellings with an area corresponding to the family composition before 1 December 1992 will, in fact, be provided free of charge and further privatized under the conditions applied during the privatization of public houses that were not returned to former owners (under Law No. 7652/1992). Decree No. 153/2001 transferred the responsibility for the continuation of the grant provision for the first-priority "homeless" group to the NHA, which received the right to purchase dwellings on the open market. The size of grant for this particular group of homeless households has been changed and is now calculated as the difference between the present average NHA construction costs and the indexed price used for the privatization of public housing. This was to the particular advantage of households from returned buildings because the privatization price is much lower than the "cost" price applied by NHA in all other cases.

The distribution of grants to households on the "homeless" list was also responsible for the lower repayment rate of NHA loans because many households living in new dwellings constructed by the NHA started to claim the right to a grant despite not being among the beneficiaries originally targeted. By government decision, NHA beneficiaries have also been able to obtain a grant since 2000. Though the programme seems very generous in view of the very limited State budget sources, the use of income criteria would lead to greater social effectiveness because of better targeting of households with lower incomes.

The provision of welfare accommodation in the form of institutionalized homes, or NGO-run hostels and sheltered homes, and the provision of housing for rent should be on the agenda of housing policy makers for the really homeless and the most needy. Although sheltered homes already exist, they are under the jurisdiction of the Ministry of Social Affairs and Labour. They can accommodate some 1300 people. However, the biggest problem is that they are not well staffed and they need refurbishment, for which funds are scarce. There is a need to strengthen the link between this Ministry and the Ministry for Territorial Development and Tourism, since it seems that their efforts in solving the problems of the homeless are not well coordinated. The 145,000 disabled people, the 7,500 elderly, of whom 80% have a housing problem, as well as the 100,000 Roma do not seem to be fully included in the list of homeless people. Many of these people would not be able to become homeowners in any case and the Government cannot ignore its responsibility to help them. The Institute for Social Insurance gives various types of social security assistance, but housing allowances are not part of these services.

Government financing of housing

Government revenue from privatizing the housing stock remained very limited, due to the very low sales prices of \$80 (7,600 leks) to \$150 (14,250 leks)²⁵ per flat. Some of these funds were used to finish

²⁵ Data: Ministry of Public Works and Transport, 1999.

some 8,200 uncompleted flats.²⁶ A carefully conducted privatization could have brought in revenue which could have been used as a form of cross-financing for the condominiums in their efforts to halt deterioration, as was the case in Budapest.

The housing subsidy policy was established and controlled by the central Government during the 1990s and was mainly oriented towards the support of homeownership (new construction of housing for private ownership) for selected social groups (former political prisoners, tenants in rental buildings returned to their former owners). In fact, the role of local government was just to prepare and approve the list of "homeless" households (the beneficiaries of housing subsidy programmes). The first framework for central policy on housing subsidies was prepared with the assistance of the World Bank in 1992. The National Housing Agency (NHA) was established originally as a State housing fund to manage the World Bank loan and additional State budget contributions for the implementation of a basic national housing policy.

The National Housing Agency is supposed to raise funds for its activities, but so far it has been mainly financed by the Government. This means that it is based on the principles of a quango. Money acquired from the privatization of housing units did not prove to be a good generator of funds. The NHA aim is to house each year some 30% of the homeless in the "tenants in other persons' premises" category. No local donors currently contribute to the National Housing Agency's finances. In the meantime the structure of its revenues remains unclear. It consists of budget funds, a 4% fee, the profit from selling properties, interest earned on bank deposits, sales of flats on behalf of other parties, such as the Ministry of Defence. More transparency and accountability is needed from NHA to make sure that any profit made has been reinvested in social housing.

Through the National Housing Agency, the central Government has built 10,372 flats all over the country. The flats built by NHA had a sales price of \$120-150 per m² (12,240-15,300 leks per m²). Today the price stands at \$220 per m² (31,566 leks per m²). These flats have been sold to the "homeless" families on local government lists. Since NHA builds mainly in the four big cities, where the costs of mass building are lower, it does not ease the problem of population and household distribution and redevelopment in rural areas. The sales arrangements are two-fold: (a) a lump-sum payment, with a 30% discount, which is paid by the Government; and (b) a long-term loan with monthly repayments. By law, repayments cannot be higher than 20% of the buyer's salary.

The performance of the NHA from the point of view of economic efficiency has become very poor owing also to excessive government interference. Though the interest rate on loans for the purchase of NHA flats should not have been lower than 3% a year according to the terms of the World Bank loan, and sales prices should have been set in US dollars to avoid the economic consequences of inflation, decrees Nos. 49/1993, 312/1994 and others created more advantageous conditions for selected categories of households called "homeless" by the Government. The price of a flat was calculated in Albanian leks, the loan-to-value ratio increased from the original 85-90% to 95%, the down payment was reduced from 14% of the loan value (4% for NHA transaction costs) to 4% (decree No. 246/2000), zero fixed interest was applied to all loan contracts with households on the "homeless" list (the overwhelming majority of NHA beneficiaries) and the reduction in price in the case of immediate cash payment increased from 10% to the present 30% of the total dwelling price. The monthly repayments should not exceed 20% of total household income. Because of these "soft" conditions together with the poor financial discipline of beneficiary households and a lack of effective political support for dealing with this problem, the NHA could not generate sufficient financial sources for additional affordable ownership housing construction. External political and legal influence as well as the low rate of repayments on NHA loans by new homeowners have increased the dependence of NHA on the State budget, and its future role in the implementation of central government housing policy has begun to be discussed.²⁷

The price of housing was subsidized by the Government through grants and subsidies on the interest rate. The Government also guaranteed the risk of exchange rate fluctuations.

²⁶ Andoni, 1999 p.iii.

²⁷ Andoni, D. 2000. *The Impact of Housing Policy on the Poor in Albania*, Lund University.

Perhaps at this stage poor families should not be forced into homeownership. Another option would be for them to rent from the Government and after a while be able to buy these rented properties from the Government. This would give them more time to strengthen their financial position, by securing employment and higher pay. The Government should consider the possibility of itself renting from the private market and then subletting the units to the most needy families at a subsidized rate. This rate should be determined in such a way as to present a minimum cost to the Government, a form of 'cold rent', covering maintenance and management costs, but not utility costs, until affordability is achieved. However, it would not be advisable to cause further budgetary stress by increasing the number of applicants eligible for this form of subsidy.

D. Private housing sector and affordability

Banking sector

The Albanian banking system is undergoing a major structural change. "Tangible progress has been made in financial sector reforms, but important work remains to be done to establish a sound and competitive banking system that supports private investment," according to the World Bank, which was quoted in Albania - Country Assistance Strategy – Progress Report for the year 2000.

The main actor in the financial sector for housing has been the Savings Bank.²⁸ It has increased its activity and opened agencies all over the country. Deposit interest rates vary according to the type of account. During 1994-1996 the Savings Bank offered housing loans with "good" terms from the borrower's point of view. In 1996, the Bank was the main implementing agency of the Law on State Support for Homeless Families. There are many private banks that operate on a commercial basis and can lend money for housing purposes, but they do it for short maturity periods and do not give low-interest mortgage loans for housing.

Private banks have a minor role in supplying credit for the housing sector. The lending conditions of private banks such as Banca Italo-Albanese, the American Bank of Albania (ABA) or ICM - Malaysian Bank are very harsh for most Albanian families. Their interest rates are very high, averaging between 10% and 14% and calculated in US dollars. Maturity is very short, averaging between 5 and 10 years. The loan covers between 50% to 70% of the property price making it very difficult for middle-class and low-income families to provide the required deposit. No grace period is allowed for these loans. These banks not only provide home loans to individual clients; some of them like the American Bank of Albania also issue loans to the construction industry.

While the total deposits of the American Bank of Albania equal 125 million leks (\$871,000) in various currencies, some 26 million leks (\$181,000) are issued as loans. Of this amount 35% is issued in loans for the housing sector (15% for home loans and 25% for the residential construction industry). Loans are issued for the purchase or renovation of completed flats. The Bank does not finance more than 70% of the value of the flat. Repayment is set at 10 years. The pricing LIBOR²⁹ in US dollars is at 5%-7% a year. The minimum loan is fixed at \$10,000 (1.4 million leks) and the maximum at \$60,000 (8.6 million leks). Fixed monthly instalments include the payment of capital and interest. Adjustable rate mortgages do not seem to exist. The Bank charges administrative costs of \$300. It gives the borrower the option of partial or total prepayment against a penalty payment of \$50 (7,174 leks) and 2% of the remaining (unpaid) amount. There have been no foreclosures by this particular Bank and the remainder of non-performing loans is usually restructured. This Bank receives mortgage payments ranging from \$133 (19,000 leks) to \$850 (122,000 leks). It calculates that a mortgage-to-income ratio of 30% is a reasonable risk for its type of clientele. The Bank does not accept mortgage repayments of more than 60%

²⁸ "The next formidable task is the privatization of the Savings Bank (SB), which holds about 75 per cent of household deposits and dominates the Treasury Bill market. The SB has been operating since 1998 under a strict governance contract to improve its performance and prospects for privatization." World Bank. Albania - Country Assistance Strategy – Progress Report. 2000, p. 7.

²⁹ LIBOR (London interbank offered rate) is the interest rate offered by a specific group of London banks for US\$ deposits of a stated maturity. Base rate.

of income and optimally some \$250 (36,000 leks) is expected to be available for living expenses for a family of four.

It is believed that other private banks have similar home loan conditions. However, since the number of wealthy clients in Albania is limited, it is expected that in the future, competitive private banks will offer more favourable lending conditions to middle-class families, primary first-time buyers (25-35 years of age), and other target groups of buyers.

Competition in the banking sector might be seen as a positive factor, expected to bring down the interest rates and down payments currently imposed by the private banks. Affordability would be greater if tenor were prolonged to 25 or 30 years and the down payment reduced. However, private banks are not capable of offering these long-term loans because they have few long-term savings deposits. Low savings and the absence of long-term loans explain why financial institutions cannot do more at present to make housing more affordable.

Apart from the need for a wider introduction of mortgage contracts, mortgagors should be ready to take out personal insurance to cover job loss, illness, etc. Housing finance and personal insurance should be developed concomitantly in Albania. There is also an ever-present risk of ending up with negative equity, which is one more reason why individuals should increase their protection against the risk through personal savings, for example. Endowment mortgages or pension mortgages do not seem to exist, which is to be expected in the absence of diversified insurance and financial services. The Government could attempt to introduce tax allowances on mortgage interest payments so as to make housing more affordable for the middle class.

Public-private partnerships

Public-private partnerships could be considered as one option for solving the present housing situation in Albania. However, their immediate introduction is hampered by the absence of landownership regulations and a sound housing-related legal system. This is becoming even more urgent owing to the lack of government-owned land and the lack of funds for land purchase. The public-private partnership idea is to reach solutions in which publicly financed/initiated projects would benefit from private expertise and higher productivity. On the other hand, the private sector would benefit from the revenue, depending on the agreement between the two parties. One of the partnerships could be for private companies to provide communal services and maintain infrastructure at a reasonable cost (as in the case of waste disposal in Tirana).

In a situation of limited affordability and restricted government funds, the private contractor could build the dwelling and lease it to the Government for a specific time period until it recovers the costs incurred and the income due. Then the dwelling would remain the property of the Government. This option is possible if the private contractor does not have a cash-flow problem and hence can afford this kind of payment arrangement. Should the private investor need to improve his cash-flow structure, the Government could consider some form of tax deduction or even grants.

Housing affordability

Buying a home is usually a decision that needs careful thinking and good timing. In the 1990s, 29.6% of the total population lived in poverty and half of them in extreme poverty. One third of all families lived in homes with structural problems. In a situation where steady jobs and incomes were lacking, some 75% of the poor had acute social problems.³⁰ One family in six lived on less than \$1 (143.5 leks) per person a day and one in two lived on less than \$2 (287 leks) per person a day (see also chap. I). Those who can afford market prices are families of four where one salary comes from the private sector (or a foreign employer) and another from the public sector with an average income of \$700-\$800 (10,000 to 11,000 leks). About 50% of the poor are self-employed in agriculture, 20% are pensioners and 10% are

³⁰ Council of Ministers, 2001:24.

employed outside agriculture. The urban/rural divide is very strong. In 1996 the Gini coefficient³¹ stood at 0.27.³² In 1998 it worsened to 0.43. Persistent unemployment can severely undermine homeownership.

Table 23. An international comparison of income distribution

Country	Year	Gini coefficient
Albania	1998	0.43
Bulgaria	1998	0.41
Czech Republic	1997	0.26
The Former Yugoslav Republic of Macedonia	1997	0.26
Hungary	1998	0.35
Poland	1997	0.3
Russian Federation	1996	0.48
Romania	1997	0.42
Armenia	1998	0.59
Republic of Moldova	1998	0.42

Source: Council of Ministers, 2001:27,34.

The World Bank household budget survey (1996) indicated a per capita income of 2,888 leks (\$27.5) per month, while in 1999 the median income stood at 15,635 leks (\$149) per capita (National Housing Agency sample) and 10,578 leks (\$101) per capita (the Savings Bank sample).

Table 24. Household income and income per capita, 1996 (in leks)

Sample	NHA		Savings Bank	
	Mean	Median	Mean	Median
Household income	48,350	54,702	27,950	30,461
Income per capita	12,646	15,635	10,863	10,578

Source: Andoni, 2000:47.

In the year 2000, the real wage index stood at 134 (base December 1990=100).³³ However, when compared to December 1995 the real wage index stood at 71.9 in 1997 and 97.5 in 1999 (see table 20). These trends could have affected housing affordability. There are also big regional differences in available family income. Data for 1998 indicate that the national average family income was 16,620 leks (\$158), while in Tirana it was 26,400 leks (\$251). How these incomes are matched with property prices is described below.

Table 25. Average dwelling price (in leks/m²)

Year	Price
1991-1995	11,384
1996	19,190
1997	19,199
1998	19,199
1999	27,878
2000	29,201

Property prices in Tirana for an average sized flat of 75 m² to 90 m² can go up to \$80,000 (11 million leks), while in Elbasan they go as low as \$10,000 (1.4 million leks).³⁴ Regional disparities stem from differences in demand for real estate, the presence of commercial activities and the consequent income levels and sources of income. As a result, the capital city is "expanding three times faster than the 1989 Master Plan had anticipated".³⁵

³¹ The Gini coefficient is a numerical measure of income inequality. It ranges from 0 to 1, with 0 representing the greatest degree of equality.

³² Andoni, 2000.

³³ Data: The Economist Intelligence Unit, 2001.

³⁴ Stanfield et al, 1999.

³⁵ International Conference of the European Network of Housing Research, 2001:3.

The house-to-income ratio³⁶ for an average old flat and an average income in the capital city stood at 10.7.³⁷ An analysis of income and housing prices shows that 40% of the families that got their house from the National Housing Agency could afford loans in the free market if they had the necessary deposit for a down payment.³⁸ This is an important finding that could be used to argue in favour of more flexible lending conditions particularly for families in need.

In Albanian society, men are traditionally the family breadwinners. Women do work outside the home, but to a lesser degree than in most other European countries. In the context of the socially prescribed role of a woman as childbearer and family/childcare provider, housing affordability is an even more acute problem for families with female heads of households. It is difficult for these women to combine their traditional roles with a career and they often face unemployment, low pay, lack of flexi-time, etc. As a result of this role conflict, the housing situation of women is more precarious than that of men. Women who engage in prostitution are usually rejected by their families and remain homeless. Widows with children and women living alone are 60% closer to the poverty line than families with a male head of household.³⁹ Albanian society should strive to use its homeownership policy to create a more stable social situation and not vice versa.

Financing maintenance and renewal

Urban renewal and maintenance problems in Albania are similar to those in other countries in transition. The extent of the physical deterioration of housing and common areas is very high. In the absence of regulations on maintenance and upkeep and because of the low purchasing power of the residents, it is to be expected that the present situation will continue. The negative aspects of this situation are: a fall in the sales price of privatized properties and poor living conditions in residential neighbourhoods. This is the most striking impression left after visiting blocks of multi-family buildings today. Condominium associations should give great importance to improving and maintaining the common and surrounding areas. It is important to educate the residents in the need for the obligatory maintenance of the common areas for reasons of hygiene, security (fire, flood, theft and other crimes) and a healthy environment. Sometimes, funds are never enough if there is no support and correct behaviour and attitude from the inhabitants towards their living environment.

The World Bank and the United States Agency for International Development (USAID) are involved in several projects to improve the population's living conditions. These projects are based on public participation in the identification of their priorities and also in the partial financing of secondary and tertiary infrastructure. The rehabilitation of illegally built housing is another important part of housing policy (third strategy). Pilot projects have been conducted by the World Bank Urban Land Management Project. Pilot sites in Breglumasi and Bathore are examples of a community contribution entwined with foreign aid. In this field, it is important to establish community-based financial support, to decentralize financing and provide more autonomy to the local government by giving it more rights over property purchases, sales and renting.⁴⁰

The sustainability of housing in the cities, towns and villages in Albania will depend on the right social and demographic mix, productive employment at the place of residence, the reduction in commuting, good land management, the productive use of available in-fill plots, the optimal use of vacant premises, successful public-private partnerships in the provision of housing and communal services, an overall increase in urban enterprise and above all wise and stimulating financial mechanisms regulated by the central Government.

³⁶ The ratio between the market price of a dwelling unit and the mean annual income of the household.

³⁷ Andoni, 2000:60.

³⁸ Andoni, 2000:62.

³⁹ Council of Ministers, 2001:25.

⁴⁰ Hodaj, 2001.