

- *Destroying property for other than technical reasons is not feasible as these dwellings are mainly proper houses and not slums;*
- *Since it had nothing else to offer, the Government will have to legalize the properties in conditions to be defined in full equity and transparency*

## **B. Existing housing stock and new construction**

By 1990 the Albanian housing market had its distinct urban and rural features. Most rural provision continued the pre-1945 self-build tradition, in the form of single-family houses. Most urban housing was provided by the State in the form of medium-rise flats. This public stock was heavily subsidized and poorly maintained. Compared with the rest of Europe Albania's housing had some of the lowest standards, with lower space standards in urban areas and fewer amenities in rural areas. Though much of the stock is new, including a third under 20 years old, the infrastructure, especially in rural areas, is poor.

The housing system that had evolved by the 1990s was not sustainable. The quantity of stock and the rate of production were inadequate, and the extent of the shortage was disguised by controls on migration to urban centres. The State's ability to influence migration has now ended, and so has much of its ability to control building development. Since 1990 the State has ceased to provide rented housing allocated according to need. It has tried to provide some affordable housing for homeownership, but the homeless lists that have been used are a poor measure of real housing need.

In this vacuum created by the withdrawal of the State, a dual system to provide new housing has developed: an informal sector drawing on self-build traditions, and a formal sector operating more like that of market economies. Despite the difficult economic and political context in which they have operated, these systems have produced around 10,000 new dwellings a year since 1990. Whilst clearly meeting some housing needs, each sector has its limitations and problems.

The informal sector takes advantage of the ability and resourcefulness of individual households, often producing reasonable standards of construction but usually building on land that lacks clear title, development permits, or services. There are now extensive communities, especially around Tirana, which are well established but where little progress has been made to regularize the position of the occupiers. In the meantime they occupy housing that cannot be traded and that lacks adequate infrastructure.

The formal housing sector now contains many large and medium-sized private companies. They have gained experience and expertise from the recent boom in housing and other types of construction. In building housing they operate with little regulation. Housing construction is now a significant source of local employment, but an increasing proportion of materials is imported. Flats in the formal sector are often built in close proximity with a poor quality of design and in volumes that overload existing services. The home purchase credit system is only partly developed and many households are excluded from it. There is now considerable variation in house prices, and hence in affordability at the local level.

The agencies responsible for providing housing utilities often lack the standard of management needed to deal with future service provision. In the Tirana area, drainage is the most critical infrastructure requirement.

Following privatization nearly all the stock is owner-occupied. Around 5% is occupied by someone else, including people awaiting the restitution of their own homes. Many owner-occupiers do not enjoy the full benefits of ownership as they may not have legal title to the land. Until land registration is completed, and the position of illegal occupiers regularized, many households will not be able to trade or mortgage their home.

The public sector system for providing flats between 1945 and 1990 did not allow for proper maintenance. Following privatization, condominiums were intended to provide ongoing maintenance, but

they were not established and no other arrangements have yet been made to deal with the accumulating need for maintenance or modernization. There is little sign of residents undertaking any joint activity to ensure the upkeep of common areas. The problems of some blocks of flats have been compounded by the nature of the (often major) extensions that have been added to the original structure. These compound the problem of ensuring adequate safety including earthquake protection.

The private sector now dominates the market, with little sign of urban housing renewal apart from some limited clearance in central Tirana. This is in part the result of the current limited powers and capability of local government.

### ***Recommendations – HOUSING MARKET***

*2.1. The Government, and all those involved in housing in Albania, should recognize the importance of housing, including its benefits to the economy. That importance should be demonstrated by an increase in public expenditure devoted to housing.*

*2.2. In the decentralization, local councils should be encouraged and empowered to undertake a wide range of housing functions to improve the housing conditions in their areas, including:*

- (i) Building and development control;*
- (ii) Assessing future housing needs and producing costed housing plans, with a realistic assessment of the resources available (strategic budgeting);*
- (iii) Recording and updating records of households in need, taking account of local affordability;*
- (iv) Strategic land acquisition /disposal in conjunction with other land-use policies.*

*2.3. The above-mentioned will include the need to improve:*

- (i) Professional staffing at local level; and*
- (ii) Support and monitoring from the central Government to encourage good practice and ensure that minimum standards are achieved.*

*2.4. The local government should be encouraged to develop its capacity to deal with local housing issues, with funding available for the authorities:*

- (i) To develop innovative local housing strategies; and*
- (ii) To implement local strategies that could be used as a demonstration of good practice in improving local housing provision.*

*2.5. Measures should be taken to modernize and expand construction materials production to minimize the need for imports. Greater production of building materials within Albania would help the local economy, but weak border controls mean that it is still possible to import materials without paying duties. Measures should be taken to further improve border controls.*

*2.6. More attention should urgently be paid to building safety, particularly to earthquake resistance norms in medium and high-rise construction as well as to fire regulations and electric installation standards in general.*

*2.7. There is a need for building and housing information and advisory services, which could provide designers and builders with information about legislation, related rules and regulations, building norms and standards, available building materials and components, and good practice in housing provision. Either a new information centre should be set up or an existing organization should be developed to this end. Such a centre could be owned and operated publicly or by professional associations or jointly by both. The experience of other countries should be analysed in order to find the most appropriate set-up, including possibilities for self-financing.*

- 2.8. *The above-mentioned promotion work should include the publication of national guidelines for builders and authorities, including examples of best practices in design, construction methods and maintenance.*
- 2.9. *Demonstration projects should be initiated, and targeted public or international funding sought, to develop and promote homeowners' associations that can maintain and improve blocks of flats.*

**The seven components of the housing delivery system**

all of which are needed for the formal housing sector to function legally:

- Permission
- Land
- Utilities
- Community services
- Labour force
- Building materials
- Financing

Source: Lecture by Prof. P. A. Dauskardt, IHS Rotterdam.

### C. Institutional framework

The housing sector and its problems are the collective responsibility of society in any country. It is therefore very important to clarify the responsibilities of each actor involved. Different countries have different problems and different institutions involved in solving housing problems. The main goal of the institutional structures is to be able and ready to approach and solve the country's housing problems.

The Government's housing-related institutions seem relatively well developed. An example of its further development is the recent government reshuffle, but there are still few visible connections between different government bodies in the solving of housing sector problems, nor are there many between the Government and other partners on the housing market. Steps to organize this sector were taken without sufficient consultation with other central and local government and non-governmental bodies. There is no parliamentary support for housing problem solving. Also, there seems to be no social contract between the Government and the citizens, according to the United Nations Development Programme (UNDP).

The main central government organization for housing, and our main counterpart for this Country Profile study, is the Ministry of Territorial Development and Tourism.

Coordination and restructuring are particularly required at regional and local level. The establishment in 1999 of the Ministry of Local Government and Decentralization clearly indicated Parliament's political awareness of the importance of regional and local coordination, and the need to devolve functions from the central to the local level of administration. It also shows that decentralization is a process; it is a desirable approach demanding changes not only in legislation but also in people's attitudes. Local governments are weak now, but can be strengthened considerably through an increasing participation of local residents and their representatives. Local government should not be seen as just administration, political prioritization and democratic decision-making are a part of it too.

Local governments' general lack of experience as independent operators in a market system is slowing down the transition in the housing sector at this level, and the absence of information and practice further aggravates this lack.

It is at the local level that housing policy provisions have to be implemented and that an effective, operational housing sector framework needs to be established. At present this level could be considered as

the weakest link in the housing sector's transition. Housing is not the first priority for the local authorities. For the time being the technical condition of water and energy supply systems as well as the problems in waste collection, transport and management are more important for them. Local government has no real financial independence.

The municipal utility companies (for electricity, water, sewage and waste collection) have no way to impose their fees on customers and therefore they operate at a loss.

For nine years the central and local authorities have not taken any real steps to implement the provisions of the Law on Condominiums and organize homeowners' associations. The existing housing stock, which can be considered national property, is falling into disrepair, and this problem can be solved only through cooperation between central and local governments as well as private construction companies and owners of flats. It would be good to study the experience of other UNECE member countries in condominium development.

The creation of the Association of Albanian Municipalities and different non-governmental organizations as well as community-based associations is a good sign for the national economy and the housing sector in particular. They have proved an effective "engine" in solving housing problems in other countries and it seems that they could do so in Albania too.

### ***Recommendations – CENTRAL GOVERNMENT INSTITUTIONS***

*3.1. The Government should urgently organize the activity of the Steering Committee on the drafting of the Housing Strategy Action Plan, the composition of which was established by government decision no. 21/2001. After drawing up the national housing strategy, the Government should establish a permanent advisory board for monitoring its implementation. The Board should include representatives from the ministries, local governments, different non-governmental organizations, housing maintenance providers and homeowners' associations.*

*3.2. It would be important to designate a national body to ensure that all government proposals and action complement and do not hinder housing aims. The new proposal for the establishment of a national housing committee, which is included in the draft act on housing for low-income families, is a step in the right direction, provided that the committee is given sufficient powers and resources to constantly follow up developments in housing.*

*3.3. Public authorities at all levels should support "bottom-up" community-based projects dealing with housing matters, since community-based organizations can operate more independently from central government authorities, and, being close to the population, are better able to contribute to social cohesion.*

*3.4. The Ministry of Territorial Development and Tourism should take steps to:*

*(i) Review the situation of the National Urban Planning Institute as the sole body for preparing urban studies and plans, and demonopolize it, licensing other institutions or agencies for this kind of activity and allowing them to exercise this activity in coordination with the National Urban Planning Institute;*

*(ii) Coordinate the responsibilities of the Housing Department of the Ministry with other departments, for instance to help set up homeowners' associations and private companies to provide housing management services. In this context the Ministry should initiate a pilot project to establish a homeowners' association in one of the country's towns. It should also organize seminars on the ways of establishing homeowners' associations. Such seminars should be organized in cooperation with the Ministry of Local Government and Decentralization and the representatives of local authorities;*

*(iii) Strengthen the capacity of the Housing Department by increased staffing, staff training and improving technical and material resources so that the Ministry can become a central service giving support, rather than controlling more independent local agencies.*

**REGIONAL AND LOCAL GOVERNMENTS**

3.5. *The Parliament should clearly determine by law the competencies of the communes/municipalities and the regions, as well as the delegation of competencies and the extent of their functions in the area of housing. The law would need to allow for local response, thus empowering local government to act in the best interests of the locality.*

3.6. *The regional level is the most appropriate for the coordination of policies and activities related to housing, infrastructure development and land use. The regional council should be given greater overall responsibility for this coordination.*

3.7. *The administrative structures of the urban local authorities should be organized and strengthened in order to address effectively housing sector problems and opportunities. The authorities will have to be involved in the search for solutions for declining stock conditions in owner-occupied multi-storey blocks of flats. They should actively promote the establishment of homeowners' associations in this kind of block as well as encourage the creation of private housing management companies.*

3.8. *Each local authority should work out a housing strategy and a plan of action, which should be in harmony with the national housing strategy and discussed with the local population and then widely disseminated. Information about the current situation in the housing sector, and measures to be taken, should be propagated in the media, publicly organized residents' meetings, local administrative housing bodies and specialized information teams.*

3.9. *The housing strategies of the urban local authorities should include a land policy as well as a policy for housing, especially housing renovation, financing. Such financing could be done through appropriate public institutions, or other institutions such as local housing funds – still to be created – combined with the residents' own contributions.*

3.10. *If local governments acquire land after the expected transfer of public property to municipalities, they should adopt a policy of renting or leasing land for public use, including social housing, instead of selling it.*

**TRAINING AND TECHNICAL ASSISTANCE**

3.11. *Local authorities and local government housing units urgently need better support systems (computers, operating manuals and quality control systems) to facilitate and improve their work. Another need, which would require international technical assistance, is practical staff training programmes. The training of municipal civil servants, however, is not sufficient, the elected members of municipal decision-making bodies also need training to make them better aware of their rights and responsibilities – and possibilities.*

3.12. *A decentralization process is currently taking place. UNDP and the Council of Europe, in cooperation with the Ministry of Local Government and Decentralization, are preparing a comprehensive training programme for local governments. It is important to use this opportunity and include housing issues in this training programme since housing is one of the exclusive functions of local government. Such programmes should include social housing provision and the establishment of homeowners' associations in multi-family housing with mixed ownership (condominiums), as well as the sources and methods for fund-raising for housing programmes.*

**MUNICIPAL MAINTENANCE COMPANIES**

3.13. *It would be useful to revise all the legislation on public utilities and draft a law or a governmental decree on public utility services, bearing in mind, however, that the privatization of public utility services would not automatically be the right solution.*

*Such a law or decree would need to include a definition of public services covering at least:*

- (i) *A description of water supply services, waste-water disposal systems and sewerage;*
- (ii) *Health requirements for settlements;*

- (iii) *Heating supply;*
- (iv) *Local public transport;*
- (v) *Public spaces' administration and other services;*
- (vi) *Central and local administrations' obligations and responsibilities for public services;*
- (vii) *Organization and functioning of public services including*
  - *public services' administration and management,*
  - *regulations on service companies,*
  - *regulations on metering and the setting-up of tariffs.*

3.14. *Local authorities, together with utility companies, should:*

- (i) *Reduce unaccounted-for water and electricity consumption by legalizing or disconnecting unauthorized connections;*
- (ii) *Increase water and electricity tariffs for the middle and high-income groups in order to recover the cost of supply;*
- (iii) *Install water meters to discipline customers in water consumption. This discipline will reduce the cost per household, and this, in turn, will result in an increase in collection efficiency;*
- (iv) *Educate the public as to the importance of safe, reliable solid waste services and the need to charge for those services.*

### **Functions of a national housing agency**

#### **Research and information**

- Data collection, analysis and research into national housing conditions
- Establish a dialogue on housing issues with leading academic institutions, housing stakeholders and residents
- Make findings on national housing conditions and real-estate markets widely available

#### **Promotion, advice and education**

- Assist local authorities in developing housing strategies
- Disseminate good practice advice to housing agencies
- Promote the establishment of professional institutions in housing-related activities such as valuation, surveying, housing management, etc.
- Support further education courses in housing-related disciplines
- Advise the Government on housing issues

#### **Implementation**

- Develop action plans for implementing government policies, such as:
  - Strengthening the role of private homeowners' associations
  - Privatizing municipal maintenance companies
  - Establishing a social housing safety net
- Establish and support pilot programmes for innovative activities, such as:
  - Homesteading
  - Savings programmes
  - Infrastructure financing mechanisms

Source: UNECE Country Profiles on the Housing Sector – Republic of Moldova, United Nations 2002.

### **National Housing Agency**

After nine years of activity, the National Housing Agency's results fall short of expectations owing to various political, legal and structural/organizational problems. At the moment it is the main player in government efforts to provide housing for families designated as homeless, but inappropriate legislation does not seem to give it sufficient tools to do so. The high and uniform standard of dwellings provided to all homeless categories raises questions. The NHA is supposed to raise funds for its activities but so far it depends on government subsidy. The particular status of the Agency, which is part private and part public and acts as

both a financial and a developer enterprise, has not proved the best solution. The current and future role of the NHA should be addressed.

For the moment, public funds for housing are managed only by NHA, i.e. the Ministry of Territorial Development and Tourism delegates to NHA the right to act as an investor and as a procurement agency, on the basis of criteria set by the Ministry. NHA is obliged to tender out projects to the private sector.

NHA builds and sells housing units at a profit. It does not, however, provide housing for rent nor take a more active role in housing maintenance and adaptation. Being the main recipient of budget funds for housing, it should emphasize its social role more. Although the ideologies of welfare have changed in many European countries, leading towards greater personal responsibility on the part of the inhabitants, it seems difficult to justify the adoption of a similar policy by the Government of Albania at this moment. There are too many poor and homeless families for the Government to adopt the same stance as most of the other European governments.

### **Recommendations – NATIONAL HOUSING AGENCY**

3.15. *The role and the function of the National Housing Agency have to be revised;*

*As a private company it should be treated by the Government like any other private company: projects should be commissioned only on the basis of competitive tenders among the private sector developers. As a public company the Ministry of Territorial Development and Tourism and local governments should have tighter control over it. Power relations between NHA and local governments need to be specified by law. The role of NHA should be limited to carrying out State policy in cooperation with the local governments. The latter should also have some control over NHA performance.*

3.16. *Measures should be taken to improve NHA activities. Giving it the status of an intermediary between the State on the one hand and the banks and private developers on the other, with clearly defined rules and transparent practices with public funding could be one way to increase the efficiency and effectiveness of the Agency. Strengthening it can be recommended, provided that there are precisely defined controls and limits on the use of public funds. The first necessary steps to take are to:*

- (i) Stop the illegal occupation of NHA dwellings;*
- (ii) Take action against the undue use of dwellings or speculation with them;*
- (iii) Define the responsibilities of various public authorities in the continuous supervision of flat occupancy;*
- (iv) Prevent the illegal transfer of NHA dwellings before repayment of the qualified loan (using leasing instead of mortgages) or in the case of postponed or refused loan repayment;*
- (v) Control the implementation of the duty to establish condominiums in residential buildings.*

3.17. *Care has to be taken to ensure that the profit created by the National Housing Agency is reinvested in social housing, for example, in building housing for rent for the most needy. As long as the National Housing Agency is the recipient of taxpayers' money, its books must be audited.*

3.18. *For further development of the NHA, the public authorities involved should study in detail the various practices adopted in the other countries in transition to run their national housing agencies.*

## **D. Legal framework**

### **Rule of law**

The socio-cultural environment of Albania is suffering from a post-crisis situation; there is widespread lawlessness, corruption, a lack of respect for institutions and a lack of community spirit, which all together make cooperation between the authorities and the population difficult. Central government appears powerless and local government weak. People try to take care of themselves first, not trusting public institutions but rather cheating the State as far as they can. Tax collection is difficult and may lead to inequality, customs duties are avoided, electricity and water are used illegally, etc. According to a World Bank survey in 1998 corruption is one of the main problems of the country and is likely to continue to be so. It is obvious that, in a situation where transparency is lacking, the housing, building and planning sector can present tempting opportunities. Neither the Basic Law nor other legislation regulates the ways and limits of local authority borrowing so as to prevent improper economic behaviour by local government representatives.

There are also organizations that are institutionally too independent, and therefore insufficiently transparent and controlled, and this may open the door to corruption. The legal structure of the National Housing Agency, the Restitution Commissions, the Construction Police, the Customs, etc. is so confused that any real public control is doubtful. Such a situation is detrimental to State and public interests.

Law enforcement is not an easy task in Albania, even when the laws are known. The truth is that the laws are not well known and applying the rule of law would require a nationwide training and information programme. Setting examples or providing incentives to prove to the population that it pays to respect the law would be important.

Although there is room for further improvement in housing legislation (especially in the sphere of housing subsidies), the main problem for Albanian society is that the law is not respected. This can be seen not only in the widespread illegal and informal construction and a minimal respect for building and urban planning regulations, but also in such particular cases as the illegal occupancy of NHA dwellings, the poor repayment discipline of NHA beneficiaries, and the refusal to pay regular contributions for the maintenance and modernization of common areas in privatized residential buildings. Moreover, even public institutions, such as the Restitution Commissions, often do not respect the law, for instance when they pay illegal compensation to former owners. The rule of law cannot be achieved without an effective and speedy judicial system and the real enforcement of the law by the authorities, including the Construction Police.

### **Decentralization**

Although the Constitution has already introduced the principles of local autonomy, the decentralization process has not been completed. Since 2001, local governments have been responsible, among other things, for water supply, sewage and drainage systems, the construction and maintenance of local roads and pavements, for urban planning, land management and housing. However, there is no specification of any local government competence or responsibility in land management or housing, and the role of local government is still limited to providing lists of "homeless" households. This situation is partially caused by the fact that local authorities still do not own property.

The wide-ranging competence of the Council for Territorial Development (CATRA) and the intermediary position of the Councils for Territorial Development mean that the urban and regional planning system does not respect Basic Law No. 8652/2000, which places urban planning among those functions exclusive to local government.

Furthermore, the central organization and considerable independence of the Construction Police is not in accordance with the decentralization legislation.

### **Recommendations – LEGAL FRAMEWORK**

4.1. *Since 2000, local authorities have had the right to expropriate (art. 8 of Law No. 8652/2000). Law No. 8561/1999 should be amended to limit the exclusive right of the State represented by the Council of Ministers to expropriate property.*

4.2. *Further legislation needs to be introduced:*

(i) *To lay down local government competencies or responsibilities in land management and housing (municipal “social” housing and/or housing allowance legislation, the role of local government in the establishment and functioning of housing associations);*

(ii) *To fix local tax revenues (or amendments to current tax laws defining the legal right to a certain portion of the central government tax revenue) and to stabilize future financial transfers to local government budgets;*

(iii) *To regulate specific local taxes (taxes going through the Regional Council budget, local taxes on personal income acquired through gifts, inheritance or lottery) and the ways and limits of local authority borrowing. Debt limits and limits on different types of local authority borrowing are often applied in other countries in transition or developed countries to prevent improper economic behaviour of local government representatives;*

(iv) *To limit the role of CATRA to the approval of interregional urban plans, regional urban plans and urban plans for zones of national importance (tourist zones, strategic zones, airports). Municipalities and communes should obtain the exclusive right to prepare general physical plans and master plans and to issue building permits (transfer of competence from the Councils for Territorial Development to municipal decision-making bodies);*

(v) *To transfer competence in building inspection from the centrally run Construction Police to independent municipal building departments or to the municipal police. The responsibilities of the Construction Police should be revised, giving them new responsibilities focusing on construction quality. Any major decision on demolition should be discussed locally in legally defined commissions with several senior representatives of the local authority in order to reduce the danger of corruption.*

4.3. *The practical measures needed to complete the decentralization process can be summarized as follows:*

(i) *The exclusive right of NHA in “social” housing construction should be changed to demonopolize the management of public funds for those purposes;*

(ii) *Further legislation on local government finance and local government housing is required, including:*

- *A law on social housing, where the State would precisely define the target groups, and set rent levels and subsidies, as well as rules for the allocation of social housing;*

- *Rules on how local government can obtain and use financing from various sources;*

- *The fixing of debt limits;*

- *Rules obliging local administrations to use rent income for housing purposes only, etc.*

(iii) *Property registration should be accelerated to allow the introduction of property taxation;*

- (iv) *Building inspection should be transferred from the Construction Police to local governments,*  
and  
(v) *Training programmes should be set up for local authority representatives.*

4.4. *Laws Nos. 8405/1998, 8561/1999 and 8408/1998 need to be amended to respect the decentralization strategy. A higher security of tenure (quicker and more reliable property registration, a legal solution for informal settlements) can also improve the collection of property taxes.*

### **Condominium legislation**

Although the Law on Condominiums, prepared with the technical assistance of the United States Agency for International Development (USAID), was approved in 1993, very few condominiums have been established and registered. This is due to the objections of the Ministry of Justice and the ineffectiveness of NHA in this field, but also to the fact that dwellings were privatized before condominium legislation was approved. Even the shorter version of the Law on Condominiums included later in the Civil Code is not fully applied. Owing to financial limitations and poor habits and control, and perhaps also to mistrust after the collapse of the pyramid schemes in 1997, co-owners seldom pay their maintenance contributions, so accelerating the dilapidation of residential housing.

#### ***Recommendations - CONDOMINIUMS***

4.5. *Condominium legislation can be improved in several ways. As it is a very important issue, it should be given priority over all other legislative action and a special law should be prepared and approved, including the following points:*

(i) *Condominiums should have the status of legal entities (compulsory by law) and as such could take effective action against those who are remiss in paying for the maintenance or modernization of common areas and property (including eviction and the loss of the right to a mortgage). Although this kind of arrangement would decrease the ownership rights of homeowners, it would surely help generate revenue for the necessary renovation of buildings and their immediate surroundings;*

(ii) *At the same time measures should be taken to provide basic shelter for the evicted whose social situation justifies it;*

(iii) *NHA or other developers/privatizers should be obliged to establish a condominium when the sale/privatization of a particular building is finished. They should be responsible for the registration of the condominium in the Immovable Property Registers. Heavy financial penalties should be applied if they fail to do so.*

(iv) *For other housing stock, the establishment of condominiums should be encouraged by public funding for the maintenance and restoration of properties; better training using, for instance, NGOs for dissemination and coordination.*

4.6. *Work on new condominium rules should be started immediately. Full use should be made of the forthcoming Guidelines on Condominium Ownership of Housing for Countries in Transition, being prepared by the UNECE Committee on Human Settlements.*

The Civil Code does not regulate the premature termination of rental contracts, the rights of tenants in particular situations (landlord pressure, the right to adequate housing in case of premature termination of contract), the rights of landlords in case of a housing shortage, the sanctions for non-payment of rent, nor many other issues connected with the protection of tenants' and landlords' rights.

The non-targeted regulation of rental housing (with no regard to tenure, the value of a particular dwelling or the social/income situation of a tenant household) was applied during communism in all Eastern countries. This is called "first-generation" rent control, and it had terrible social and economic consequences. "Second-generation" rent control distinguishes between the regulation of rents in the private and social sectors, establishes clear income/social criteria when dwellings are rented at social rents and the rents reflect the value of the dwellings, according to location, standard, size, etc. Rents are often not regulated, while rent increases/decreases are generally regulated by law, e.g. in line with inflation. Since the 1970s "first-generation" rent control has been gradually replaced by "second-generation" rent control in almost all developed countries (Europe, United States). It is clear that some protection against rent fluctuation and speculation needs to be approved, and if measures are applied, they should be close to the general trend in other countries.

#### ***Recommendations – RENTAL HOUSING***

4.7. *The legal conditions for the effective functioning of rental housing in the Civil Code should include the following:*

- (i) *The conditions for the premature termination of the rental contract;*
- (ii) *The rights of tenants and landlords in particular situations, such as the right of a landlord in cases of a housing shortage, sanctions for the non-payment of rent, reasonable tenant protection, etc.;*
- (iii) *"Second-generation" rent control (in which the rents are locally relevant, and there is control over landlord profit) to increase the security of tenants in private rental housing and to assure the long-term sustainable development of the sector;*
- (iv) *The repeal of lease registration tax, as it is not common practice in other countries and increases transaction costs.*

4.8. *The "social" rental housing legislation needs to be carefully prepared if this form of State aid for needy households is to be applied (rent control, allocation mechanism, the duty of regular income declaration, the powers and responsibilities of developers and owners).*

4.9. *A system of means-tested housing allowances should be introduced to help those lower- and middle-income families that cannot afford higher rents.*

#### **Property restitution and the transfer of land to local governments**

The landownership situation is far from clear because of privatization and property restitution deficiencies. New legislation in 2002 will transfer State assets to the local authorities, which should give them an important opportunity to control land use and land prices within their jurisdiction as well as to generate major income for them. It would also be an important asset for the implementation of their exclusive housing functions. Whether this will succeed and whether the local communities will be capable of using this income for housing development remains to be seen. In the meantime, the processes of land restitution and compensating eligible owners with public land are not coordinated with the process of transferring public property to local governments.

### *Recommendations - RESTITUTION*

4.10. *The means of compensating former owners by giving them other urban land plots must be precisely fixed by law. The compensation should be granted only after the approval by the municipal council and not simply by decision of the district restitution commission. Giving the highest power in the restitution process to the local governments would be a logical complement to the Government's current decentralization strategy.*

4.11. *Compensation should also be possible in forms other than land, such as vouchers, securities or cash. Laws are gradually being passed but restitution itself has not even started. The Government might benefit from the experience of other countries in transition where property has already been returned to former owners.*

4.12. *According to article 83 of the Civil Code, all immovable property and real estate rights must be registered in the immovable property registers (IPR) and the transfer of their ownership must be the object of a notarized act and registered, otherwise it is not valid. However, article 195 specifies that immovable property that is not recorded in the registers can be transferred if it becomes subject to an easement. This contradictory specification must be clarified since any easement must also be registered in the above-mentioned registers.*

4.13. *The reduction in fees for the registration of immovable property transfers in the registers as well as the fees paid for building permits will surely help improve the functioning of the housing market and decrease the amount of illegal construction and transfers.*

4.14. *New ways to legalize informal and illegal settlements need to be found to solve this acute housing problem. The current Law on Urban Planning is too strong to be applied in practice and a new amendment to this Law should provide new solutions, considering the de facto situation prevailing in various parts of the country.*

4.15. *The Working Party on Land Administration, working under the UNECE Committee on Human Settlements, has gathered valuable information and policy experience on land management issues in the UNECE region. The Albanian authorities should try to take full advantage of that work, and that network, to improve their own performance.*

## **E. Financial framework**

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 housing provision. The prerequisites for housing financing such as banking, insurance services, business information (real estate) and financial security do exist, but are not yet adequately developed. Also, government budget restrictions make it very difficult to provide for those who cannot provide for themselves.

After decades of communist rule, the public is not used to handling or borrowing money in the way which is customary in market economies, nor to considering housing as an investment. In addition, the problems created by the so-called pyramid schemes in recent years have made lending institutions and the general public very cautious when it comes to financing housing through loans. Private banks seem reluctant to finance housing. It is difficult to establish reliable guarantees with the prevailing lack of mortgage markets. Credit institutions and systems are still very weak, and the few institutions that really work are interested only in the very rich, there are no workable systems for the general public.

## Private sector banking systems and ownership risks

The current banking system relies on personal savings, which are low and so prevent it making housing loans with longer maturities and smaller down payments. There are no special concessions for first-time buyers, young couples or special target groups such as disabled persons or single parents for example. There are also few small and medium-size loans available for smaller housing investments. The lack of trust in banking systems was more pronounced in the past, but personal savings seem to be slowly returning to bank accounts. Homeownership should be seen as a motor for social peace and stability and not as a generator of social 'discord'.

## Budget financing and its alternatives

The rapid privatization of the public housing stock did not raise substantial government funds for housing because sales prices were so low. The housing strategy action plan aims to increase budget financing for housing by seeking funds elsewhere. This is considered a very positive approach and should be put in practice as soon as possible. A serious attempt to deal with tax evasion and unpaid customs duties is also long overdue.

Building for rent by the National Housing Agency could be seen as one way out for families that cannot afford market prices. The Government could also consider renting from private owners and subletting to the most needy at a subsidized rent. It is important not to push the poorest into homeownership. The right social mix in the government-built properties is essential. This is usually linked with an appropriate tenure-mix, whereby tenants would live alongside homeowners. This ensures community sustainability and prevents the creation of ghettos.

## Taxation

Taxation is not well developed in Albania, and there are several possibilities for diversifying it and widening the taxation base. However, tax collection is problematic when, as is often the case in Albania, people's incomes are not known. Much of the potential tax revenue is lost to the grey economy. Ideally, the local government should be empowered and equipped to collect taxes and to keep a part of the income for its own budgets.

... Any system of taxation should:

- Serve clearly defined social objectives;
- Raise significant amounts of revenue;
- Be exclusively under the control of government authority;
- Be administered in a way that the public understands and sees as fair;
- Be relatively simple and cheap to collect;
- Be designed to make it difficult to avoid making payments;
- Distribute the tax burden equitably across the community;
- Encourage good use of resources.

## **Recommendations – HOUSING FINANCING**

### 5.1. Public housing

(i) *Public housing and public assistance should be restricted to the most needy. This would ensure a fairer distribution of the limited housing budget funds;*

(ii) *Transparency in the distribution of State aid for housing requires a transparent system of points and eligibility criteria;*

(iii) *NHA should act as a non-profit housing agency only partly financed by the Government. It should adopt the role of social protector for those for whom market prices are prohibitively expensive. All profits created through financial dealings should be redirected to social housing;*

(iv) *NHA should also build dwellings to rent to those who cannot afford to buy from it;*

(v) *Shelter homes, which are under the jurisdiction of the Ministry of Social Affairs and Labour, are also a part of public housing and should therefore be allotted more funds;*

(vi) *Instead of grants and subsidies (not means-tested) for those who are already housed or who are aiming at homeownership, rental subsidies should be introduced for those low-income groups who have to rent.*

### 5.2. Homeownership

(i) *It would be inappropriate to advocate homeownership across the board. Secure employment, higher pay and long-term financial stability are prerequisites for a sound homeownership housing policy;*

(ii) *The housing mortgage sector should be encouraged by passing strong laws on lien execution in cases of default. Hence, there is a need to increase information about mortgage risks;*

(iii) *Mortgage conditions should be improved, particularly for young families and first-time buyers, whereby special mortgage moratoriums could be given by the banks for the first few years, when the mortgage impact on family budgets is at its highest;*

(iv) *To support a homeownership policy, a varying stamp duty (progressive) could be introduced based on the property price band and the type of client (first-time buyer, property investor, etc.);*

(v) *Mortgage legislation can be improved by more precise criteria for the use of mortgaged property to satisfy debt obligations in cases of debtor insolvency and for a debtor's ability to appeal to the courts;*

(vi) *The introduction of mortgage bonds connected with the creation of an Albanian stock market. The performance of the Albanian stock market and insurance industry might lead to the introduction of alternative types of mortgage financing such as endowment plans or individual savings accounts based on shares, savings, etc.;*

(vii) *Tax incentives in the form of a possible mortgage interest tax relief may be used. However, tax payment discipline needs to be improved;*

(viii) *The possibility of separating ownership of land and building and/or the institutionalization of a so-called building right (also "leasehold tenure") should be discussed to create more possibilities for the mortgage financing of housing construction and purchase (this possibility could help solve several important problems posed by illegal settlements too);*

(ix) *Domestic savings and sound financial management should be encouraged. This would help local banks to engage in more beneficial mortgage contracts.*

### 5.3. Fiscal mechanisms

(i) *Various forms of land tax, capital gains tax, inheritance tax, income tax rebates for home improvements and adaptation work, etc. could be introduced. A progressive stamp duty could be introduced so as to stimulate ownership among the less well-off;*

(ii) *It is also important to establish incentives for those enterprises (building companies and manufacturers of building materials) that venture into low-cost building programmes and encourage their operations by tax concessions, import duty rebates or favourable lending conditions, etc. To reduce the risk of falling government revenue, profit taxes and import duties can be increased on those companies that cater for the up-market clientele;*

(iii) *Private investments in housing for rent could be stimulated. The Government could consider preferential tax treatment for social target group building.*

### 5.4 Local governments

(i) *The ownership of public land by the municipality should be ensured;*

(ii) *Housing financing should be decentralized by increasing the competencies of the local governments;*

(iii) *Local governments could make use of various fiscal instruments, such as a tourist tax, an advertisement tax, parking fees, etc. to increase their financial potential which could be used for purchasing land, creating land banks and financing primary and secondary infrastructure;*

(iv) *It is of the utmost importance to conduct a professional valuation of building land and other real estate, residential buildings, commercial premises and other public assets so as to increase potential sources of public revenue;*

(v) *Micro-credits and credit revolving funds for local communities should be developed so as to ensure the financing of maintenance and adaptation work for which the means are scarce.*

5.5 *Public-private partnerships could be seen as an efficient way to solve housing problems when either land or capital investment is scarce.*

5.6 *It is important to improve the information flow and education on the risks and benefits of homeownership, on the market costs of municipal services, the importance of the security, maintenance and repair of housing units as capital investments. All the social strata should be encouraged to accept their responsibilities.*

5.7 *Housing sector operations have been split between several ministries. This complicates the issues of sufficient financial provision and prioritizing. Inter-ministerial cooperation needs to be strengthened so as to ensure a more efficient distribution of funds and services.*

## **F. Further work**

### **Future research in housing issues**

One of the long-term objectives spelled out in the national housing strategy action plan is a decrease in housing demand. This could be achieved but it should be noted that with a reduction in the average size of the Albanian family and with further individualization, future demand for housing will be different, and probably focused more on higher-quality housing. That is where local policy makers should envisage a future demand by more diversified social groups. A lack of inter-ministerial activities has been noticed and improvement in collaboration between ministries should help to identify these trends.

**Recommendation - RESEARCH**

*6.1. Future demand for housing should be assessed through a sound demographic household projections. Bearing in mind the current negative rate of growth, the recent fall in fertility, and a possible reduction in emigration flows it can be expected that pressure on the demand for new housing will increase due to family nuclearization and individualization. Particularly significant for policy formulation would be data on income, poverty and social exclusion in relation to housing and on the condition of the housing stock. More research work, data and information on housing in general and housing finance specifically will be needed. In the above work, special attention should be paid to the accuracy of the data provided.*

**National follow-up and international cooperation**

The implementation of Country Profile recommendations depends on the authorities and other stakeholders in the country itself. Country Profile reports are normally translated into national languages for better dissemination, and followed up in national seminars or workshops on specific issues where the experiences of other UNECE member countries could prove useful.

There are several international organizations operating in Albania in various fields with a bearing on housing and related urban development. However, none of the organizations interviewed in connection with this study had ongoing housing projects – in the narrow sense of the term – but some had undertaken or were considering related work.

UNDP has a core role in coordinating at least United Nations activities and in providing constantly relevant information on human development issues. It was agreed in principle that UNDP would consider using the UNECE Country Profile study in preparing its local governance training.

The World Bank was involved in the establishment of NHA (see chap. III), and it is currently implementing a new project on infrastructure services in informal settlements, the Urban Land Management Programme. Neither of these projects can be said to have contributed sustainably to the overall development of Albania's housing sector. Yet, work in the informal settlements may well help find a solution for this complex issue.

It was not possible to draw a full picture of all ongoing bilateral cooperation that Albania is involved in. USAID had a strong housing programme until 1994, when it stopped for internal political priority reasons. It is currently dealing with land registration issues. It assisted in the drafting of condominium legislation, which was however not adopted. The Greek Government has financed a major programme for housing construction (see chap. V). The German technical assistance agency GTZ is preparing a housing-related project, which it is hoped could be related directly to the UNECE recommendations and soon be carried out in collaboration with the Ministry of Territorial Development and Tourism. In this case immediate follow-up is possible.

It might be said that international assistance in housing lacks cohesion and continuity. There should be long-term involvement by the international partners if something sustainable is to be achieved in housing policy development.

The ultimate challenge of the Country Profiles project of the UNECE Committee on Human Settlements is to promote sustainable housing development and the improvement of housing conditions and policies throughout the UNECE region. The Committee is, therefore, monitoring the progress made on the practical implementation of its recommendations and disseminating the experiences of countries as widely as possible within its constituency. Although national differences are considerable, the housing problems to be solved in the process of economic and social transition have much in common.

**Recommendations – FURTHER WORK**

6.2. *There should be follow-up in cooperation with UNECE. Albania should be encouraged to organize a seminar or workshop for disseminating ideas and for developing them further for practical application. This Country Profile report should be translated into Albanian and made available to a large number of stakeholders, particularly in the local administration.*

6.3. *Albania would need to know about experience in the other countries in transition in the matters which are being tackled. One such is the restitution of land and buildings, in which much policy experience has been gained in other countries. There is an increasing need also to study the experience of EU member countries, since Albania has taken the first steps towards EU accession.*

6.4. *Other agents in the international community cooperating with Albania should understand housing more broadly and see the considerable potential that the housing sector has to revitalize the national economy and produce sustainable, long-term assets for people as well as to contribute to their economic and social aims. The Albanians request more assistance for their housing sector. Their request is justified.*

