

ECONOMIC COMMISSION FOR EUROPE

COUNTRY PROFILES
ON
THE HOUSING SECTOR
ALBANIA



UNITED NATIONS

ECONOMIC COMMISSION FOR EUROPE
Geneva

**COUNTRY PROFILES
ON
THE HOUSING SECTOR**

ALBANIA



UNITED NATIONS
New York and Geneva, 2002

NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

*
* *

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

ECE/HBP/130

Copyright © United Nations, 2002
All rights reserved
Printed at United Nations, Geneva, Switzerland

UNITED NATIONS PUBLICATION

Sales No. E.03.II.E.18

ISBN 92-1-116832-5

CONTENTS

	<i>Page</i>
Foreword	v
Preface	vii
<i>Chapters</i>	
I. FRAMEWORK FOR THE HOUSING SECTOR TRANSITION	1
A. General information	
B. Economy	
C. Population – urbanization	
D. Government housing policy	
E. Recent developments in housing policy	
II. EXISTING HOUSING STOCK AND NEW CONSTRUCTION	15
A. The housing stock and its characteristics	
B. The adequacy of the housing stock	
C. The construction industry	
D. House prices and need	
III. INSTITUTIONAL FRAMEWORK	27
A. Public institutions	
B. Local authority institutions	
C. Private sector and non-governmental organizations and associations	
IV. LEGAL FRAMEWORK	45
A. Constitutional framework and proprietary rights	
B. Decentralization of competence from central to local government	
C. Legislation on privatization of public housing and housing restitution	
D. Legislation on housing subsidies	
E. Legislation on financing and mortgages for housing	
F. Legislation on urban planning, landownership and transfers and real estate registration	
V. FINANCIAL FRAMEWORK	57
A. Housing economics	
B. Housing finance systems	
C. Social housing and allowances	
D. Private housing sector and affordability	
CONCLUSIONS AND RECOMMENDATIONS	71
Bibliography	93

FOREWORD

The Country Profiles on the Housing Sector are intended to assist the Governments of countries with economies in transition in improving the performance of their housing sector while promoting sustainable development. They analyse trends and policy developments, and make an overall assessment of the political, economic and social framework of the sector in the process of reform. This work was initiated by the UNECE Committee on Human Settlements in the early 1990s in response to requests from its member States.

The studies are carried out by international teams of experts in cooperation with governmental bodies, non-governmental organizations, local authorities and the private sector. Through a process of broad consultations, the experts carry out a comprehensive analysis of the housing sector, and draw conclusions and make recommendations to help policy makers develop strategies and programmes.

This Country Profile on the Housing Sector of Albania is the seventh in the series published by the United Nations Economic Commission for Europe's Committee on Human Settlements. I hope that this Country Profile will prove useful to all those with an interest in Albania's housing sector – policy makers and legislators, government officials, academics, NGOs and other national stakeholders, as well as international organizations, including lender and donor organizations, technical assistance agencies, or private sector investors.



Brigita Schmögnerová
Executive Secretary

PREFACE

The Country Profile on the Housing Sector of Albania started with a preparatory mission by the secretariat in December 2001. The research mission of the international team of experts took place in February 2002. Albanian experts responded to the queries and requests of the international team during and after the mission. The project's expenses were covered by extrabudgetary funds provided by the Governments of the Netherlands, the Czech Republic and the United Kingdom. The successful conclusion of the project would not have been possible without this generous support.

The previous studies in this series were on: Bulgaria, published in 1996 (ECE/HBP/101); Poland, published in 1998 (ECE/HBP/107); Slovakia, published in 1999 (ECE/HBP/112); Lithuania, published in 2000 (ECE/HBP/117); Romania, published in 2001 (ECE/HBP/124); and the Republic of Moldova, published in 2002 (ECE/HBP/125).

Other work carried out by UNECE in Albania includes an environmental performance review (EPR) in 2001-2002. It provides recent information about Albania, including on its built environment and urban development. The follow-up process to both projects is important for inter-sectoral policy implementation in the country. Two other UNECE projects related to housing may also prove useful to Albania and other countries in transition: (i) the Guidelines on housing condominiums for countries in transition, and (ii) the Guidelines on housing finance systems for countries in transition.

This Country Profile on Albania is also available on the web site of the Committee on Human Settlements <http://www.unece.org/env/hs/cph/welcome.html>.

INTERNATIONAL EXPERTS

Mr. Veikko VASKO	(UNECE secretariat)	Project manager and draft coordinator
Ms. Agnieszka HADA	(UNECE secretariat)	Chapter I
Mr. Malcolm BOORER	(United Kingdom)	Chapter II
Ms. Elena BEJENARU	(Republic of Moldova)	Chapter III
Mr. Martin LUX	(Czech Republic)	Chapter IV
Ms. Maja MILJANIC BRINKWORTH	(Malta)	Chapter V

The above experts are the principal authors of the chapters mentioned. Parts of their work have, however, been incorporated into other chapters for better cohesion and clarity. The conclusions and recommendations are a result of joint team work.

NATIONAL EXPERTS

Ms. Doris ANDONI Local coordinator	Director of Housing Department, Ministry of Territorial Development and Tourism
Ms. Krisavgji STEFA	Head of Business Statistics Section, Institute of Statistics, INSTAT
Ms. Ilda BOZO	Chief of Statistical Section, Ministry of Social Affairs and Labour
Mr. Xhavit DAJCI	Chief of Housing Section, Ministry of Territorial Development and Tourism
Ms. Vjollza BAZAITI	Specialist, Housing Section Ministry of Territorial Development and Tourism
Ms. Shpresa KARANXHA	Specialist, Budget Department, Ministry of Finance

Exchange rate: \$1 = 142.2 leks (February 2002)

Information cut-off date: August 2002.

Chapter I

FRAMEWORK FOR

THE HOUSING SECTOR TRANSITION

This chapter is intended to give a general picture of the Albanian housing sector as it has developed over the past decade, against the backdrop of the socio-economic transformation during this period. It will present major demographic changes and their impact on housing developments and policies as well as the consequences of the economic transition and structural reform on the housing sector. This chapter will also address related government policies (or lack thereof) during the transition period, and outline current attempts by policy makers to revise existing housing policies. Some of the issues raised will then be discussed in detail in the relevant chapters.

A. General information

Albania is a country with a total area of 28,748 km² and a total population of 3,087,159. The country has a favourable geographic position on the Adriatic Sea, considerable natural resources and is mostly mountainous (77% of the territory) in the north and the east.

Albania is a parliamentary democracy. A new constitution was approved in November 1998 by referendum. It replaced the interim law which was passed in April 1991 when the communist-era constitution of 1976 was annulled.¹

B. Economy

Macroeconomic indicators

The political change was followed by economic reform. The early results of the tight fiscal and monetary policies during the transition from a State-controlled to a market economy were reflected in the main economic indicators such as the rapid GDP growth rates of 9% a year in 1993-1996 and the reduction of inflation from 226% in 1992 to 7.8 % in 1995. Initially Albania was considered to be a model transition economy, but restricting analyses to indicators alone may not give a full picture of the situation. Macroeconomic indicators would not reflect the undeveloped financial sector and many economists feel that the apparent rise in living standards was due to either remittances from abroad or to illegal activities.

The controversial “pyramid” deposit schemes soared in 1996 as an alternative to the non-existing banking system. An interest rate of 15 to 100% was offered on three-month deposits. Interest to early investors was paid from funds collected from later deposits.² The collapse of the system in 1997 was followed by destructive riots and a political and economic crisis, reflected in the macroeconomic indicators (see table 1).

However, the tight monetary policy, budgetary deficit control and a stable currency resulted in a quick recovery at macroeconomic level – GDP growth, -7.0% in 1997, was restored to its previous level and steadied at around 8%, nor was there an increase in the budgetary deficit which in 2000 stood at 9.1% of GDP. Inflation fell, too, from 42% in 1997 to 0.7% in 1999 and to 0% in 2000. The low inflation rate has been maintained by a fall in fuel and food prices and by controlled budget expenditure. Estimated average inflation for 2001 is 3.1%, the rise was caused by an increase in electricity prices from 1 December 2001, with the introduction of a second, higher tariff band.³

¹ Economist Intelligence Unit. Country Profile 2001 Albania.

² Economist Intelligence Unit. Country Profile 2001 Albania.

³ Data: The Economist Intelligence Unit, 2001 and 2002.

Figure I. Map of Albania – administrative boundaries and major cities



The boundaries shown at this map do not imply the official endorsement or acceptance by the United Nations.

In 2000 per capita GDP growth stood at 7.8% and estimates for 2001 show 7.3% real growth.⁴ Nevertheless, in 2000 the unemployment rate remained high (16.8%) and per capita GDP (purchasing power parity in US\$) of \$2,468 indicated that together with Yugoslavia, Albania is among the poorest countries in South-East Europe.

Another challenge to the fragile Albanian economic and political system came with the Kosovo conflict in 1999, when more than 400,000 refugees entered the country. Contrary to expectations, the crisis was accompanied and followed by a growth in economic activity, which in turn boosted a demand for investment.⁵

The value of the local currency, the lek, has continuously depreciated over the past ten years from 25 leks/US\$ in 1991 to 143.48 leks/US\$ in 2001. During 1993-96, when inflation slowed down and GDP grew steadily, the lek was relatively stable. In 1997 it depreciated sharply and has never recovered its former value. However, during the past few years the public has shown more confidence in the lek and in 1999 the exchange rate strengthened considerably.⁶

Table 1. Main macroeconomic indicators 1990 to 2001

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP – total (in million leks)	16,813	16,404	50,697	125,334	184,393	229,793	280,998	341,716	460,631	506,205	536,640	590,237
GDP constant prices 1990	16,813	12,105	11,235	12,309	13,331	15,107	16,482	15,325	16,547	17,748	18,605	20,367
Real GDP growth		-28.0	-7.2	9.4	8.3	13.3	9.1	-7.0	8.0	8.0	7.8	6.5
GDP per capita (thousands)	5.1	5.1	15.9	39.6	57.6	70.7	85.6	102.8	137.3	154.7	\$1094.4	\$1332.6
constant prices 1990	5.1	3.7	3.5	3.9	4.2	4.6	5.0	4.6	4.9	5.3		
Avg. monthly wage				3,084	4,778	6,406	8,638	9,558	11,509	12,708	14,963	
Avg. consumer price index		35.5	226	85	22.5	7.8	12.7	42.07	20.6	16.3	0	3.10
Unemployment rate	-		27**	22	18	13	12	14.9	17.7	18.4	16.8	
Lek/US\$	8.9	24	75	102	95	93	105	149	151	138	143.71	143.48
Lek/€										147	132.58	128.27

*EIU estimates.

** Draft strategy on growth and poverty reduction, 2001.

Sources: INSTAT, Albania in Figures 1997, 2000 and 2001; UNDP Human Development Report 2000, EIU Country Profiles and Report 2001 and 2002.

It has to be admitted that much of the positive trend in the economic indicators has been achieved through remittances from Albanians working abroad. The impact of the informal economy is also significant but mainly unaccounted for in assessments of employment rate, income tax, etc. The economy remains agrarian – the majority of the population lives in rural areas and more than half of GDP is generated by agriculture. The level of investment in industry, especially in manufacturing is very low. In 2001 it was 20% of GDP, up 5%.

The bulk of public investment in Albania is provided by foreign aid. The European Union and the World Bank are the main international donors. Italy, the United States of America, Greece and Japan are the main bilateral donors. However the disbursement rate is very low – only 50% per cent of funds received have been spent.

Income and poverty

The economic performance does not have a direct effect on the quality of life of the population. Albania is one of the poorest countries in Europe. The declared average monthly income in 2000 was

⁴ Data: INSTAT, The Economist Intelligence Unit, Albania 2002.

⁵ Economist Intelligence Unit. Country Profile 2001 Albania.

⁶ UNDP. Albanian Human Development Report 2000.

17,000 leks (\$118).⁷ According to official statistics (INSTAT), the average monthly income in the public sector in 2000 was 14,963 leks (\$104). GDP per capita in 1999 was 154,700 leks (\$1,116).

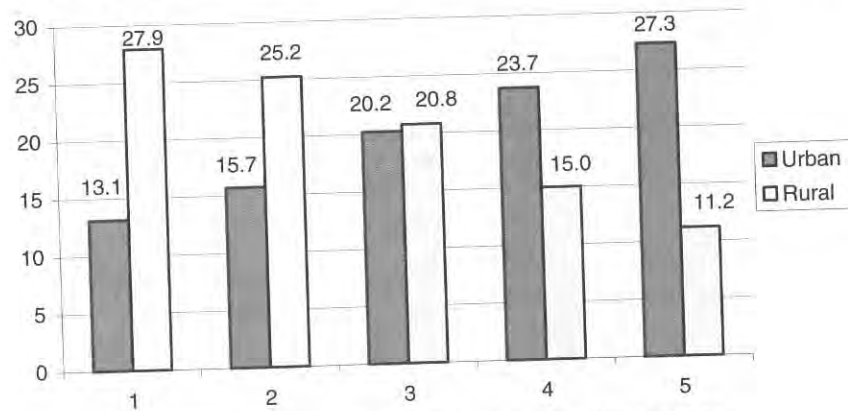
In 1998 the average income per household was 16,620 leks per month. In areas with fewer than 10,000 inhabitants, the income per household falls to 14,250 leks per month, while in areas with more than 10,000 inhabitants, incomes are 21,240 leks per month.⁸ This rural-urban disparity is clearly shown by the income quintiles⁹ for rural and urban areas and it partly explains the trends towards urban migration.

Table 2. Percentage of population in rural and urban areas according to income quintiles in 1998

Quintiles	Urban	Rural	Total
Q ₁	13.1	27.9	22.5
Q ₂	15.7	25.2	21.4
Q ₃	20.2	20.8	20.6
Q ₄	23.7	15.0	18.3
Q ₅	27.3	11.2	13.5
Total	100	100	100

Source: Draft strategy on growth and poverty reduction, 2001.

Figure II. Percentage of population in rural and urban areas according to income quintiles in 1998



Source: Draft strategy on growth and poverty reduction, 2001.

One family in five is said to have a member living abroad. The average amount of the money sent back home is estimated at 10,000 leks per family per month. Some 5.2% of families receive income from property.¹⁰

According to official statistics, 29.6% of Albanians are poor, half of them live in extreme poverty. One in three families is inadequately housed, infant and maternal mortality rates are high, 14% of children under the age of 5 are malnourished, 12% of children under 15 years of age are illiterate.¹¹ Poverty is the highest in the north, in large families, headed by young or poorly educated people. In 1996, 90% of the poor lived in rural areas.¹² Half the poor are self-employed in agriculture; 20% are pensioners. There is a high level of inequality in the nationwide distribution of family income. In 1998,

⁷ UNDP. Albanian Human Development Report 2000.

⁸ INSTAT. Results of Household Living Condition Survey October 1998, Tirana 2001, p. 46.

⁹ Income quintiles measure the average (mean) household income of residents, ranking them from poorest to wealthiest, and then grouping them into 5 income quintiles (1st being poorest and 5th being wealthiest), each quintile containing approximately 20% of the population.

¹⁰ INSTAT. Results of Household Living Condition Survey October 1998, Tirana 2001.

¹¹ Republic of Albania. Council of Ministers. Strategy on Growth and Poverty Reduction. Second draft. Tirana, 24 July 2001.

¹² World Bank. Albania – Country Assistance Strategy – Progress Report 1999; INSTAT. Results of Household Living Condition Survey October 1998, Tirana 2001.

the top 20% of families received 48% of total family income, while the poorest 20% received only 5%.¹³ In Tirana 26% of the population lives on less than a dollar a day, while in Tirana's outskirts 36% do so.¹⁴

Unemployment is one of the main causes of poverty in urban areas, while hidden unemployment is characteristic of rural areas. Unemployment is above average in the towns of Berat, Elbasan, Kurbin, Shkodra, Permet and Kucove.¹⁵ Unemployment in Albania is gender- and age-specific, with 21% of women unemployed and 16% of men. Some 60% of young adults aged 16 to 34 are unemployed and the situation is even worse in the cities: Vlore (86%), Mat (82%), Tirana (66%), Puke (65%) and Shkodra (63%)¹⁶. The social consequences are exacerbated by the fact that two thirds or more of the unemployed are no longer eligible for unemployment benefits.¹⁷ In 2001 unemployment fell to 15% in the third quarter, compared to 16% in the second quarter and 18% in the third quarter of the year 2000. The number of recipients of unemployment benefits has been reduced from 22,000 in December 2000 to 15,000 in September 2001, due to stricter controls on the 'grey' economy. The funds for unemployment benefits fell from 550 million leks (\$3.8 million) in 2001 to 350 million leks (\$2.4 million¹⁸) budgeted for the year 2002. On the positive side, the Government budgeted twice as much for professional training and retraining purposes as the previous year.

C. Population – urbanization

From 1945 to 1990, urbanization in Albania was controlled. Up to 1960 urbanization was encouraged since it was in line with industrialization and building a working class in a socialist country. However, in the 1960s, migration to cities was discouraged by policies promoting the development of smaller towns and forbidding people to settle behind established city boundaries, the so-called yellow lines.¹⁹ Before 1990 only one third of the population was urban.

Table 3. Population

in thousands

	1989	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total	3,182	3,286	3,190	3,167	3,202	3,249	3,283	3,324	3,354	3,373	3,401	3,087
Urban	1,137	1,176	1,165	1,314	1,345	1,381	1,445	1,526	1,543	1,555	1,598	1,300
Rural	2,044	2,080	2,024	1,852	1,857	1,868	1,838	1,798	1,811	1,818	1,802	1,787
Natural growth		63	57	50	54	54	51	44	42	41	34	34
Density (inhabitants / km ²)		114	111	110	111	113	114	114	117	117	118	107

Sources: INSTAT. Albania in Figures 1997, 2000, 2001. Census 2001.

The data for 1989 and 2001 are derived from censuses; the other data are estimates. While the 2001 census data confirm population estimates in the rural areas, the figures in the urban areas are much lower than previously estimated. The explanation for this drop may be the emigration during the period under review. According to the Ministry of Social Affairs and Labour in 1999 there were 500,000 emigrants in Greece and 200,000 in Italy.²⁰ Analyses of census data show a considerable drop in rural and a growth in urban population.

Since 1990, when all the restrictions were lifted, Albania has experienced a large-scale migration to towns of people in search of employment and a better standard of living, lured also by the image of city life shown by the media. This migration was also caused by the loss of homes and land to previous owners, insufficient land plots to support families, and other limitations in the development of the

¹³ INSTAT. Results of Household Living Condition Survey October 1998, Tirana 2001, p. 48.

¹⁴ Kuriakose A. T. Land Tenure Centre, University of Wisconsin-Madison. Who is housed? The debate over access to housing in North America and Western Europe and its relevance to housing policy in Albania. 4 May 2001.

¹⁵ Republic of Albania. Council of Ministers. Strategy on Growth and Poverty Reduction. Second draft. Tirana, 24 July 2001.

¹⁶ Council of Ministers, 2001:29.

¹⁷ UNECE, 2001b.

¹⁸ Calculated at 2001 exchange rate.

¹⁹ Besnik Aliaj.

²⁰ UNPD. Albanian Human Development Report 2000, p.39.

agricultural sector.²¹ A total of 24% of the population has moved either within the same district or to a different region.²² As a result of this haphazard, rapid and massive population movement, re-urbanization and the overpopulation of cities has become a major problem, resulting in more poverty, unemployment and black market activities and deteriorating living conditions. There are also problems with housing, inadequate infrastructure, shortages in water and electricity supply, and limited access to services such as education and health. This rapid urbanization has also led to the deterioration of the urban environment.

Most people moved to the capital and the coastal regions. Tirana took 61.5% of all migrants, and the coastal regions Lushnje 7.5%, Durres 6%, Fier 4%, Vlore 3.5% and Sarande 2.3%.²³ According to estimates, the annual population increase in the Tirana-Durres region during 1991-1998 was almost 7%, equivalent to 30,000 people or 6,500 households per year.²⁴ About one third of the country's population is concentrated in this area.

The estimated population of the district of Tirana has grown from 374,000 in 1990 to 618,000 in 1999. The figure according to the 2001 census is 523,000. The difference in the figures may be indicative of the scale of emigration in the past decade.

Table 4. Population by selected districts and cities in 1989 and 2001

Population by district				Population by city		
Main districts	1989	2001	2001*	Main cities	1989	2001
Berat	176,398	128,410	163,981	Berat	42,957	40,112
Korce	215,221	143,499	178,243	Korce	63,623	55,130
Fier	245,062	200,154	240,035	Fier	43,086	56,297
Elbasan	241,950	224,974	257,894	Elbasan	80,650	87,797
Shkodra	236,289	185,794	261,744	Shkodra	79,920	82,455
Vlore	176,788	147,267	147,267	Vlore	71,662	77,691
Lushnije	134,280	144,351	144,351	Lushnije	29,821	32,580
Durres	245,499	182,988	182,988	Durres	82,719	99,546
Tirana	368,213	523,150	523,150	Tirana	238,057	343,078
North-eastern districts*				Corresponding towns		
Kukes	101,302	64,054	83,896	Kukes	13,511	16,686
Has		19,842		Krume	2,968	3,218
Tropoje	44,779	28,154	28,154	Bajram Kuri	7,378	6,561
Puke	48,969	34,454	34,454	Puke	3,028	3,253
Diber	149,650	86,144	129,129	Peshkopi	12,320	14,136
Bulquize		42,985		Bulquize	6,493	8,811
Mat	76,674	61,906	61,906	Burrel	10,343	12,139
Mirdite	50,447	37,055	37,055	Rreshen	4,080	5,445

* There were 28 districts in 1998 and 36 in 2001. The figure shown refers to the 1989 administrative borders.

Source: INSTAT, Census 1989 and 2001.

The influx in Tirana and the coastal cities has left rural areas depopulated. There are now some rural areas where 50% of the housing stock is empty.²⁵

Difficult geographic and climatic conditions together with extreme poverty drove the inhabitants from the mountain villages to villages and towns on the hills and plains. Table 4 shows that even when the overall population of a district declined the population of the main town grew. The population is also leaving now declining small industrial towns like Kurbnesh, Memaliaj and Selenica, developed for mining by the previous regime.²⁶

²¹ UNDP. Albanian Human Development Report 2000.

²² INSTAT. Results of Household Living Condition Survey October 1998, Tirana 2001.

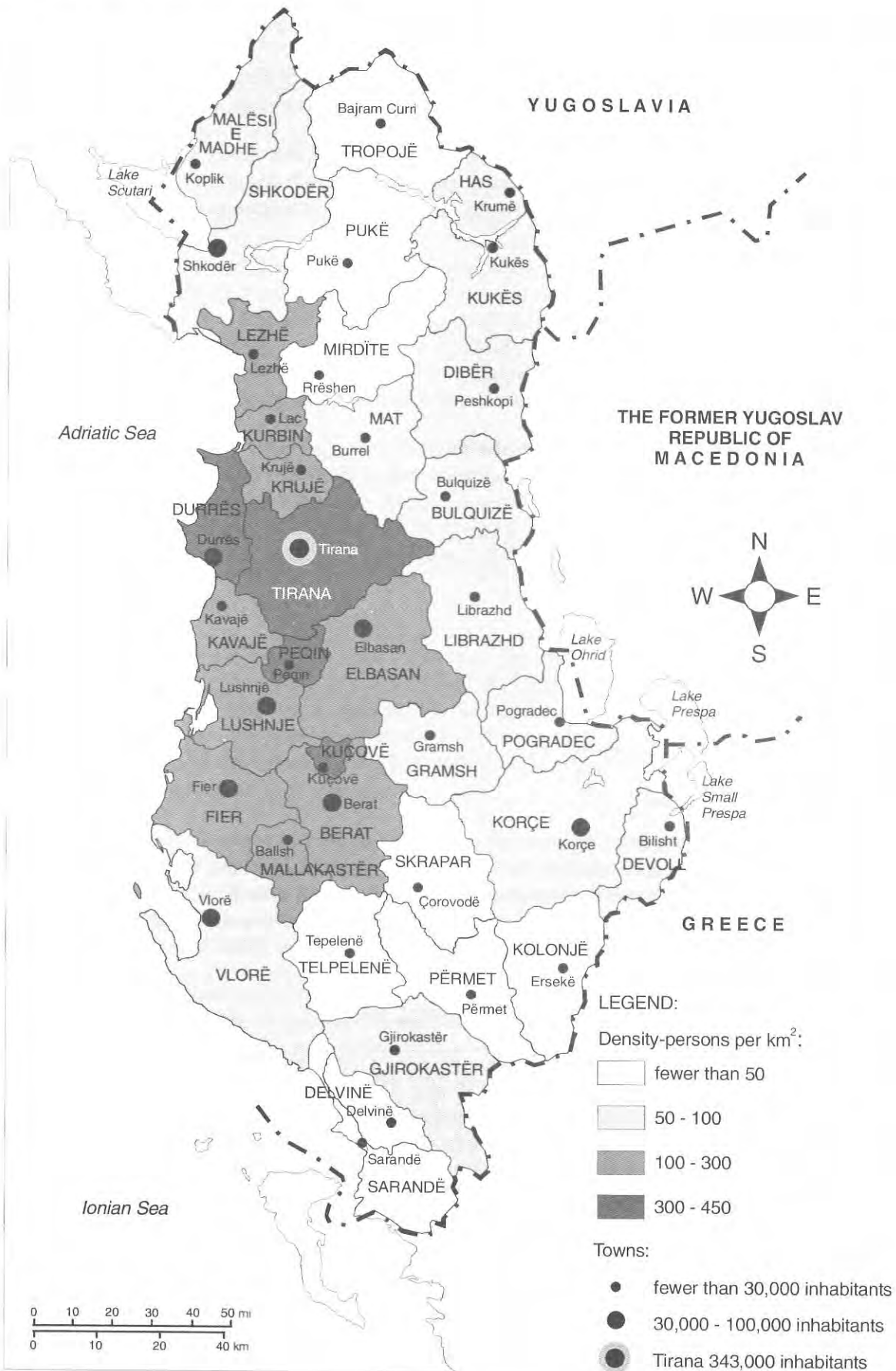
²³ INSTAT. Results of Household Living Condition Survey October 1998, Tirana 2001.

²⁴ World Bank. Project appraisal document on a proposed credit (...) to Albania for the urban land management project. Report no 17694-ALB. 12 April 1998.

²⁵ INSTAT. Preliminary results of the population and housing census – 2001. Tirana, 2001, p. 12.

²⁶ INSTAT. Results of Household Living Condition Survey October 1998, Tirana 2001.

Figure III. Population distribution



The boundaries shown at this map do not imply the official endorsement or acceptance by the United Nations.

According to the UNDP National Human Development Report, life in the cities deteriorated rapidly due to insufficient investment, a shortage of urban studies and projects and the lack of clear strategy on the part of the State and local administrations.

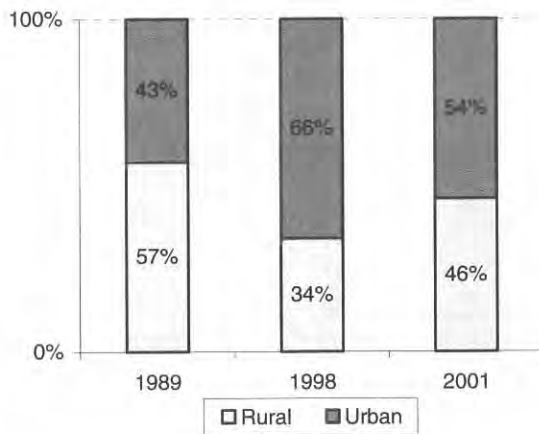
In 1990, nearly 75% of the population was rural, while elsewhere in Europe it was below 30%.²⁷ In 2001 the country was still predominantly rural, but the rural population was less than 60% and the urban population grew to over 40%. For housing provision, the number of households is also important. According to the 1989 census, 57% of households were rural, while the 1998 survey showed a steep drop in rural households to 34%. The 2001 census reveals that 46% of households are rural and 54% urban. Although the census data are not as critical as the survey data, the rapid urbanization trend is clear.

Table 5. Number of households

	1989	1998	2001
Rural	386,227	248,276	331,886
Urban	289,229	484,983	396,755
Total	675,456	733,259	728,641

Sources: INSTAT Census 1989, Survey 1998, Census 2001.

Figure IV. Rural and urban distribution of households



Given the limited financial resources and the lack of government-owned land, the continuation of a rural-to-urban exodus is something that the Albanian Government can ill afford. It would be important for policy makers to be able to monitor and anticipate current and future population migration trends. However, the only available forecasts on population movements date back to 1994.

D. Government housing policy

The housing stock inherited from the previous regime in 1990 was inadequate in quantity and quality.²⁸ The average surface of an urban flat was 30 m². The 1989 government-approved standards were 4-6 m² per person, while according to planning norms the floor space of a dwelling for a family of four should be 61 m². In addition the construction of approximately 12,000 dwellings started in 1989 was not completed.²⁹ Seventy per cent of the urban stock was public rental housing; in rural areas housing was predominantly private. (See chapter II.)

The political change and the radical, fast transition to a market economy in 1990 had important direct consequences for the housing sector. The first change was the lifting of the restrictions on the free movement of people, which resulted in an uncontrolled and massive influx of people into cities and illegal settlements. The second one was the structural reform that included the privatization of the public

²⁷ UNDP. Albanian Human Development Report 2000.

²⁸ Andoni Doris. National housing policy in Albania and the role of the Housing Agency.

²⁹ Andoni Doris. The impact of the housing policy on the poor in Albania. Master thesis, 4 December 2000.

housing stock that had direct repercussions on the Government's housing policy. The third was the restitution of property.

Illegal settlements

The massive and uncontrolled flow of the population resulted in illegal settlements sprawling over the urban areas. The presence of illegal buildings points to the unresolved complexity of conditions of access to urban land and housing in Albania.³⁰

In the 1990s the public administration in cities was not prepared to receive such a mass of people. No serviced plots for construction had been prepared. The result was further overcrowding, the illegal occupation of vacant land on the outskirts of towns and illegal construction. Incoming villagers would occupy a plot of land and first build a wooden structure. As financing – presumably from remittances – came in, they would start building a proper house, adding floors and finishing construction over time. As a result, the attractive hillside called Bathore on the outskirts of Tirana in the municipality of Kamza is becoming a relatively wealthy neighbourhood of illegal three-storey villas with no roads and no sewage, no or illegal connection to electricity, settled by villagers from the north-eastern Kukes area. Those who occupied land first then illegally sell parts of it to newcomers.

Between 1992 and 1996 the informal sector provided 60% of the total number of houses built by the private sector.³¹ Illegal occupation and construction usually means illegal connection and use of electric energy, which in turn leads to electricity cuts. In addition, these illegal houses often occupy agricultural land. Such settlements are usually irregular, and when they have to be legalized one day, the provision of infrastructure such as roads, water, sewerage and electricity may prove to difficult and costly.

Both overcrowding and illegal construction on such a scale cause other problems for the healthy environment and living standards in cities. The municipalities have in practice little influence on building regulations and limited or non-existent control over the ongoing construction. They are unable to manage properly the provision of public services such as waste collection, public transport or access to open and green areas. The growing number of cars – and consequently growing pollution and noise – leads to further degradation of the environment. The uncontrolled urbanization and the overpopulation of cities may endanger their sustainability.

So far the Government has not formulated its illegal settlements policy. However, due to the risks to health and the environment in those settlements inhabited by 45% of the population of the Tirana region, in 1998 the World Bank initiated its Urban Land Management Project (ULMP), which aims at the provision of primary and secondary infrastructure to these settlements with a planned 20% participation by the inhabitants in the cost of the secondary infrastructure. The remaining 80% have been co-financed by the World Bank (70%) and by the Government (10%). Tackling the legal issues has been given priority. The conditions for selling land to illegal occupants and eventual compensation to owners have not been spelled out. The current market price for agricultural land in Kamza is \$4/m² and for serviced land \$15/m². So far none of those settlements has been legalized, although in the first pilot area the work has been completed and the properties have been registered. The desire to legalize is not so clear on both the government's and the settlers' sides. It may also be important to mention here that the collection of the second 10% of the fee, when the works are finished, has run into difficulty.

It may sound paradoxical but many low-income families in Albania build affordable houses of a good standard by themselves – the problem is that they do so illegally. According to local experts it takes four to five years to build a house at a cost of \$5,000 to \$6,000.

Privatization

The private ownership of housing was considered a right that the urban population of Albania had been deprived of for the previous 50 years under the communist regime.

³⁰ Fernandes, 1999.

³¹ Andoni Doris. The impact of the housing policy on the poor in Albania. Master thesis, 4 December 2000.

The housing stock was privatized in 1993 under the Law on the Privatization of State Housing (No. 7652, December 1992). Within one year, 238,700 State-owned flats (99% of the total public housing stock) were privatized.³² Housing that consisted of two rooms and kitchen built prior to December 1965 and housing consisting of one room and a kitchen built prior to December 1970 were transferred as private property to the tenants free of charge. The families of former political prisoners, victims of political persecution and disabled war veterans from the Second World War were also entitled to privatization free of charge. Other housing was transferred at tariffs determined by the Council of Ministers (see chapter II for further details).

The objectives of housing privatization were:

- To improve housing maintenance by transferring responsibility for repairs to the owner-occupiers;
- To improve the use of the housing stock by enabling owners to move freely between dwellings priced at real cost; after privatization the owner could choose to sell his house and buy a different one according to his needs and preferences, paying the real cost of the house;
- To create a market for new dwellings by allowing new owners to cash in the acquired equity and to use it as partial payment for new homes; and
- To enable private individuals and enterprises to construct and manage housing, relieving the Government of such responsibilities.

However, the privatization of public housing was implemented rather hastily and without the structures necessary for the new system to function properly. Many aspects of the management and maintenance of the privatized stock were not taken into consideration. The law on condominiums and the maintenance rules had not been drawn up. New owners often do not realize that being the owner of a flat implies accepting their part of responsibility for the maintenance of the common areas such as staircases, roof, structure, or garden. For most people ownership ends “behind the wallpaper”. Owners also often find themselves unable to pay for the maintenance of their newly acquired property.

Moreover, until the mid-1990s the Government had not adopted a clear and specific policy towards the private sector – the only policy seemed to be that of “laissez-faire”.³³

Subsidized housing

As a result of the privatization of the housing stock, some families lost their homes, which were returned to their former owners. In 1993 the Government committed itself to providing housing for such families. It also committed itself to helping those who had been deprived of housing for political reasons during the previous regime. This policy is reflected in the subsidizing of housing for such families and is related to the Government’s definition of homelessness as specified in the 1993 Decree on Establishing Criteria for Homeless Families (No. 49, 29 January 1993). The main categories of “homeless” households are:

- Citizens who did not have rental contracts with former State housing enterprises under certain conditions (those transferred from other cities and those living in overcrowded flats);
- Citizens living in temporary buildings (schools, hotels), citizens living in underground or unhygienic dwellings; and
- Citizens living in houses belonging to others and in private rental buildings.

The last-mentioned category of “homeless” households is composed of those families that did not have a chance to benefit from the right-to-buy policy because of the restitution of residential buildings to their former owners.

The above definition of homelessness is very wide and quite vague compared to the definition of homelessness in other European countries.³⁴

³² Andoni D. National housing policy in Albania and the role of the Housing Agency, p. viii

³³ Andoni D. The impact of the housing policy on the poor in Albania. Master thesis, 4 December 2000.

³⁴ Homeless persons are perceived as people without regular, private access to conventional housing, i.e. people sleeping rough on pavements, in parks, in public spaces, in doorways or in emergency shelters.

A register of families by family size and housing conditions was created by municipalities/communes in December 1992. There were 45,368 "homeless" families on that register. In 1996 Decree No. 250 prioritized the categories of "homeless" households. The tenants in houses that were returned to their previous owners and former political prisoners and their families were given first priority (category A). The Government would not address other groups before providing housing for people in this category. After the collapse of the pyramid investment schemes, those who lost their flats were also included in the definition of homeless. Initially there were 6,000 of them – a number later reduced to 2,290 families.

The deadline for registering homeless families was June 1998. There were 9,477 category A families registered at that time. Currently, according to the Ministry of Territorial Development and Tourism, there are 5,500 families in this same category. A total of 46,149 "homeless" households have been registered by local authorities. That is nearly 6% of all households.

In 1993 under the World Bank project, the National Housing Agency (NHA – originally established as the National Housing Fund in 1992) was created to provide housing for the families identified by law. Since 1993, 11,000 flats have been built with a loan which the Government received from the World Bank for the completion of unfinished residential buildings. These have been sold on preferential conditions to families on the homeless lists for private ownership. The overwhelming majority of new flats constructed by the NHA have been allocated to households in category A since 1996. (See chapters III and IV for more details on NHA and chapter V for details on State subsidies.)

The NHA does not build any rental housing, as the Government has no social rental housing policy at the moment. The Government does not possess and neither builds nor is trying to acquire any rental housing.

It is clear, from the definition of homeless categories, that the element of affordability is not taken into account in the groups that the Government is committed to assisting. The analyses carried out in 2000 on the samples of families provided with housing either through the NHA or the Savings Bank showed that 90% of those families had above-average incomes for Tirana.³⁵ This shows clearly that the families provided with subsidized housing by the Government are not the ones most in need.

Maintenance

The 1993 World Bank loan was given on condition that the Government adopted a new sector policy including privatization as already described and the formulation of a condominium policy. The Law on Condominiums was passed by Parliament, but never implemented as it was not supported by the necessary regulations and not based on local reality. No formal homeowners' associations have been established although some do exist informally.

There is not much awareness among civil servants, particularly those in the municipalities, of the importance of creating such associations nor of the benefits to be derived from such a system. Neither the local government officials nor the NHA, which is obliged by law to facilitate the establishment of homeowners' associations, feel responsible for initiating this process.

Land registration and restitution

The registration and the restitution of land started in 1993 and are still under way. The process is managed by the 12 regional Restitution Commissions. (See chapters III and IV.) The Committee for the Return of Property and the Compensation of Owners has received some 42,000 applications. In some 30,000 cases the Government has taken a decision; the other 9,000 applications in urban areas and 3,000 in rural areas are still pending. Up to now, 75% of claims to agricultural and urban land have been revised. If the land was not occupied, it was returned to its previous owners. In other cases the owners were eligible for compensation in the form of land elsewhere. Little compensation to the former owners has been paid as yet. However, in some cases private owners were, mistakenly, given back land that had

³⁵ Andoni D. The impact of the housing policy on the poor in Albania. Master thesis, 4 December 2000, p. 56.

a different designation according to urban plans. Currently, local governments are preparing an inventory of public property in order to assess the availability of public land.

Proposals to amend the Law on Restitution and Compensation of Former Property Owners are being prepared. The amendments will allow for compensation in kind in urban areas and tourist areas, while compensation in cash will be paid for industrial areas or in the case of enterprises.

The restitution of land to former owners and the compensation in land elsewhere that currently still remains in public ownership are not being coordinated with the transfer of State property to local governments. Civil servants throughout the public administration do not seem to recognize the importance of keeping some assets such as land in public ownership. Land is an asset which can be a very important tool in the hands of municipalities. Political decisions are urgently needed to resolve these matters.

According to EIU Country Report 2002, 98% of the eligible arable land has been registered, but the final determination of boundaries and ownership has been postponed until the end of 2003. Titles have been distributed to 413,000 owners for 96% of the plots, which average 1.4 ha.

Regional policy

The formulation and the implementation of a regional development policy are important from the point of view of housing policies as it could, to a certain extent, affect migration. There are no migration forecasts available for the coming years, but according to local experts the process has not halted.

Regional policy should be formulated at regional council level. However, there is not enough knowledge within local government on how to approach this issue.

The only example of a regional development study is the study on the so-called Tirana-Durres corridor prepared by the German technical assistance agency GTZ. There are no other regional studies or policies.

E. Recent developments in housing policy

National Housing Strategy

The Government has recently tried to reformulate its housing sector policy. An Action Plan for the Housing Strategy was approved in January 2001 (Decree No. 21, dated 20 January 2001). An attempt was made to involve all the ministries concerned in the formulation of policies. There was also an attempt to establish inter-ministerial working groups for each of the strategy's three programmes. Furthermore, preparation of a new housing law started within the framework foreseen in the action plan.

According to the Action Plan, the main goal of the housing policy will be to establish appropriate legal, financial and institutional conditions and mechanisms for improving access to housing for the poor and vulnerable groups. The document clearly reflects the intention of the Government to reformulate and refocus its policy objectives in the housing sector from the unrealistic direct provision of housing units to the so-called "homeless families" who emerged after privatization of the housing stock. The past 10 years have brought minimal results, and, what is worse, families who benefited often turned out to be from the better-off groups in society, while those in need were given the lowest priority and apparently would never be assisted.

The intention to reflect the policy shift in the Action Plan caused some inconsistencies in the document. Normally, a national housing strategy should address the whole housing sector. This one states that its main goal is to support poor and vulnerable groups. At the same time the document includes programmes that address the housing sector as a whole. The Action Plan has the following three main objectives:

1. The promotion of the construction of low-cost housing;
2. The establishment and improvement of a financial system for housing;

3. Programmes for the modernization and maintenance of the existing housing stock, including illegal settlements.

It would be appropriate, if a national housing strategy were formulated, for it to address the whole housing sector and include a policy for various target groups as a separate chapter.

Further formulations of the policy can be found in the draft *strategy on growth and poverty reduction* dated May 2001. The Government's medium-term goal for urban development is to stop urban degradation, to reduce poverty in urban areas and to create the necessary conditions for long-term development.³⁶

According to the draft strategy on growth and poverty reduction, in the next three years (2002 to 2004) the Government intends to focus on:

1. Strategic urban planning and programming; including the formulation of strategic development plans, investment in infrastructure, especially in areas with rapid urban growth, such as the Tirana-Durres corridor, the Kamza municipality, etc., a revision of the strategic plans for the development of depressed industrial zones;
2. The formulation of urban policies; including the transformation of informal communities into formal communities; the replacement of subsidy policies with cost-recovery policies; the integration of poor communities into regular urban developments through the regulation of landownership, the improvement of physical infrastructure and social services, the commercialization of public services; the completion of land restitution; and the implementation of the Law on Public Real Estate;
3. Improvements in the legal and institutional framework; including urban governance and a role for local government in urban planning; the settlement of landownership problems and the development of the land market; an increase in municipal financial resources and the identification of monitoring indicators to measure urbanization;
4. Improvement of housing policies, including:
 - (i) The creation of adequate, legal, financial and institutional mechanisms and conditions to ensure a better access of the poor and other vulnerable groups to the housing market by applying a government-approved strategy focusing on: (a) the reduction of State financing for housing; (b) the decentralization of housing responsibilities to local government; (c) the effective use of the subsidy funds by targeting poor families in greater need; (d) a better management and maintenance of private dwellings. In the future the State will play the role of a facilitator, rather than a builder of houses for the poor;
 - (ii) Promoting the construction of low-cost homes which poor families can afford;
 - (iii) Improvements in the housing-related financial system to include the following activities: identification of the financial possibilities of low-income families in order to set up credit lines for them; mobilization of private and community savings for housing purposes; the use of State-guaranteed long-term deposits for housing credit.

Neither of the documents addresses rural housing issues, nor is the role of local government in the processes specified satisfactorily in the new documents. In the light of the current decentralization which intends to empower local government to carry out its own functions - housing being one of them - more consideration should be given to the role, responsibilities, resources, financial tools and power relations of local government in relation to other housing sector institutions. At present local authorities have little experience and their urban departments are weak. However, there is the possibility of including housing issues in the training programme being developed for local governments with the assistance of the Council of Europe and UNDP.

The most important of the documents being drafted is the housing act. The provisions of its preliminary draft are in line with the two above-discussed documents. The draft confirms the redefinition

³⁶ Republic of Albania. Council of Ministers. Strategy on growth and poverty reduction (second draft), Tirana, 24 July 2001.

of the target groups based on affordability, the shifting of State responsibility from provider to facilitator. An attempt is being made to differentiate among the forms of State support and to encourage new providers of social housing. The inter-ministerial approach to policy formulation and execution is again being applied; the private sector, NGOs and local governments are all being involved.

It is clear that effective policies require certain fundamental issues in the institutional, legal and financial framework of the housing sector to be resolved. The following chapters of this study will describe this framework.

Chapter II

EXISTING HOUSING STOCK AND NEW CONSTRUCTION

This chapter reviews the existing housing stock and the emerging housing market that has developed since 1990. Section A reviews the development of the housing stock and the information that is available about its age, type and tenure. Section B assesses the stock's adequacy in terms of quantity and quality. Section C reviews the construction industry and section D considers house prices and needs, before looking at the features of the Tirana housing market.

A. The housing stock and its characteristics

The total stock and its age

The preliminary results of the 2001 Population and Housing Census (2001 Census) show that Albania had a total of 520,936 residential buildings containing 783,641 dwellings at April 2001.

Drawing on data from the 2001 and 1989 censuses, and likely changes during the 1990s table 6 gives an estimated stock profile, with an age breakdown.

Table 6. Total estimated stock in 2001 by age

Pre-1945	215,000	27%
1945-60	80,000	10%
1961-80	230,000	29%
1981-90	140,000	18%
After 1991	120,000	15%
Total	785,000	

The full results of the 2001 Census, when available, will provide the age of dwellings, in age bands, plus the year of construction for all dwellings built after 1990.

The rural legacy

A quarter of the present housing stock was built before 1945. Until this time Albania was a predominantly rural society with no public intervention in housing and little industrialization. Most pre-war housing was "self-build", with some local variations in the design. This housing was generally single-family units, though often large enough to be occupied by more than one generation. In 2001 just over half of the rural housing stock had been built before 1945. Some housing in historic urban areas has been preserved.

The impact of communism

Over half the current housing stock was built during the communist era, with more than half of this total produced by the private sector. Production during the communist era was at a rate of just over 10,000 units a year, though the annual rate increased over time. Total production during 1945-89 was some 457,300 dwellings. ,

The effect of the communist production was a substantial urban sector, and a marked difference between rural and urban housing. Most urban housing was in the form of public sector flats, while most rural housing continued the "self-build" tradition.

Private ownership of housing was extensive, but it was regarded as a personal possession and not a commodity that could be traded. Land, and some finance, was made available for construction for personal use, with the resulting housing mostly in the form of single-family houses.

Some public sector housing was provided in rural areas; the 1989 Census found that it accounted for 10% of the rural housing stock. In the urban areas, government or other State employers provided housing for most of the population. By the time of the 1989 Census public flats accounted for 70% of the urban housing stock, ranging from almost total provision in Kukes to around half of the stock in Gjirokaster and Shkodra. Some of the urban stock was appropriated by the Government, with the 1989 Census finding 3,618 buildings built before 1945 in public ownership.

Public sector housing completions during 1945-90 included some 122,000 dwellings produced by State organizations and 75,000 completions through 'voluntary' work.¹ The voluntary completions, all after 1967, were the result of local labour, organized by the residential area or workplace, combined with technical assistance from the State. The communist housing system produced insufficient and low-quality housing and the public sector was financed and organized in a way that did not encourage ongoing investment in the stock. The Government's ability to control internal migration reduced the pressure on urban housing.

Around 30% of the current housing stock, and over half of the urban housing stock, is made up of blocks of flats built by the State during the communist era, when the public sector produced a fairly standard product with limited space standards. In the early stages low-rise blocks of flats were produced, and from the 1970s some degree of prefabrication was used. Six-storey blocks of flats were built from the mid-1960s onwards. Hardly any were higher than six storeys or had lifts. Government standards during 1977-88 allowed 61.7 m² of usable floor area for 4-5 people plus another 19.5 m² for stairs, walls, etc., with prototype designs prepared by the National Institute of Studies and Designs. Some variation is indicated by the classification used for the privatization sales price, which allowed for differences in quality.

The 1989 Census found an average of seven flats per public sector building, with slightly more in urban areas. The 2001 Census found an overall average of 1.5 dwellings per building, with 2.5 in urban areas, and the highest levels of 4.4 in Diber and Kukes.

The unfinished public sector housing inventory of the early 1990s gives an idea of public construction at the fall of communism. Of the 12,239 units, 60% were being built by economic enterprises, the balance by State enterprises. Just over half comprised flats with two rooms and a kitchen and a surface of 82 m². Most of the remainder had one room and a kitchen and an area of 64 m², with a few larger flats with three rooms and a kitchen and 93 m². Nearly a quarter of the unfinished public stock was in Tirana.²

During the communist era public sector flats were let at minimal rents, which did not cover adequate maintenance or make any provision for upgrading. People in urban areas grew accustomed to consider the provision of housing as the responsibility of the State.

Compared with other East European countries, Albania's housing stock built by the public sector is relatively new. Two thirds of the public stock was built during 1970-1990 compared with around 40% in Estonia, Poland, Slovakia and Hungary. In Albania a much lower proportion of this post-1970 stock was built using prefabricated materials. The basic structures were, however, of a relatively high technical standard during the communist time, due to strict technical control.

The public sector response after communism

Government intervention in housing changed greatly during the 1990s. Control over rural-to-urban migration, property use and exchange, and the regulation of new construction was considerably reduced.

¹ 1989 quoted in Andoni, MA Thesis, 2000

² Albania Housing Project Report World Bank 1993.

Most of the public stock was privatized in 1992-93. Of the 1990 total stock of 239,000 units, some 225,000 had been sold or transferred to sitting tenants by 1994. In addition, some 2,000 buildings, including dwellings, were the object of restitution claims, and a decision has now been taken in most cases. Of the communist era stock, fewer than 5,000 dwellings remained in public ownership by the mid-1990s. The free market ethos has allowed an estimated 4,500 ground-floor flats to be converted to non-residential use. Although condominium arrangements were intended as part of the privatization process this has not been implemented. There is little sign of collective action by flat owners to undertake collective maintenance or upgrading.

In the 1990s the State, through the NHA, endeavoured to complete unfinished public housing, and to build additional flats for sale at below-market prices. Figures for the 1990s indicate that 10,193 flats in 555 buildings were built for the Agency, an average of just over 18 flats per building. The peak years for completions were 1995-96. Data at the end of 2000 indicated that 6,892 flats had been sold, 3,146 had occupants paying no rent to the Agency, and it was planned to sell 1,950 flats in 2001.³

Public enterprises are permitted to build housing for their employees and are estimated to have completed fewer than 1,000 dwellings during the 1990s. Some 1,000 unfinished public housing units were taken over for use by the armed forces.

New housing construction since 1990 by the private sector

Since the early 1990s most new housing, around 110,000 dwellings, has been produced by the private sector. Andoni⁴ estimates an average of 8,000 a year during 1992-98, financed by Albanian investors, foreign investors, individual households, and the informal sector. She estimates that from 1992 to 1996 Albanian investors completed some 5,000 dwellings, that 8,000-10,000 detached dwellings were built by private households, mostly in or near the larger settlements, and that the informal sector made a contribution of 60% to total provision.

Figures for the number of dwellings completed are available from the declarations made by construction companies and from building permits issued by municipalities.⁵ Declarations for 1997-99 show an increase in the number of buildings, with a separation into new and renovated buildings, and total floor area. In these data, housing does not show an increase in the value of work for the whole construction sector, but it does show a rapid increase in the proportion of work constructing buildings, as opposed to infrastructure. These data suggest that the formal sector accounted for around half of all new buildings in the late 1990s.

Table 7. Company declarations

	Dwellings	Average in m2	Units per building	Renovation
1997	2,478	90	7.3	6%
1998	3,934	91	10.3	16%
1999	5,786	123	8.1	11%
Total	12,198			

Source: Surveys of Active Enterprises.

The construction permit figures for 1995 to 2000 give the total number of dwellings, their total floor area and their approximate value in leks. For 1999 and 2000 there is a value breakdown for public and private clients, which shows that the public sector accounted for 10% of work in those years, or roughly 250 buildings. A summary of these housing permit data is shown in table 8. An average of five to seven dwellings per building is consistent with significant levels of building outside the permit system. These figures suggest that substantial formal building activity had been generated before the 1997 crisis, but after it building, or the recording of it, declined.

These figures are available at area level and the contribution of each Prefecture is shown in Figure V. Though conclusions from these data are subject to caution because of the extent of building

³ Data provided by the Ministry of Territorial Development and Tourism, Feb 2002.

⁴ Andoni MA Thesis 2000.

⁵ Data provided by Instat.

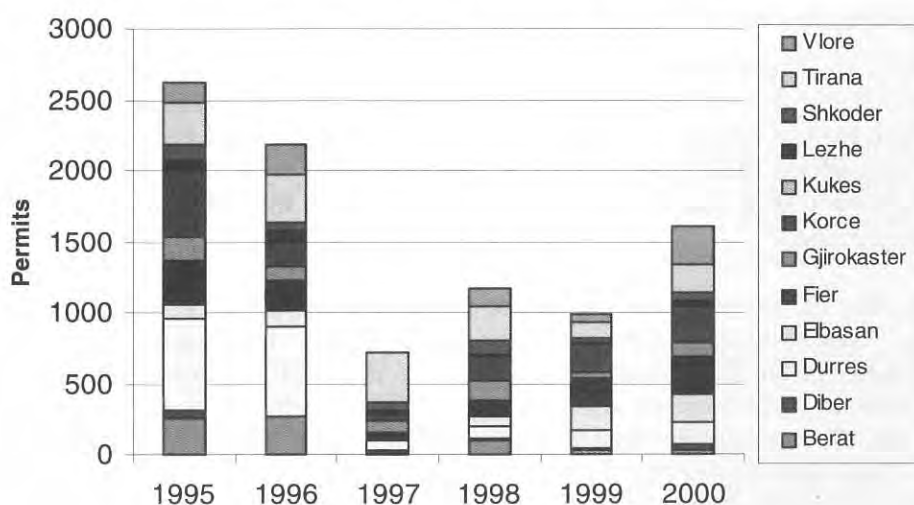
outside the permit system, these figures suggest that Tirana may not have dominated construction activity, even if it has a higher average number of dwellings per building. The Durres area in particular made a large contribution in the early 1990s.

Table 8. Permit data for housing

	Buildings	Average m ²	Total value in millions of leks	Housing as % of all buildings
1995	2,618	169	7,064	37.6
1996	2,178	154	8,358	16.5
1997	719	416	7,797	56.8
1998	1,172	353	8,960	36.8
1999	981	421	10,128	61.2
2000	1,599	520	15,128	60.5
Total	2,033			

Source: Construction permit statistics.

Figure V. House construction permits by Prefecture



In the late 1990s around 10,000 new dwellings were completed each year in Albania.

This represents 3.1 dwellings per 1,000 people recorded in the 2001 Census. The equivalent figures for EU countries in 1999 range from 1.3 in Sweden to 12.4 in Ireland, with most EU countries producing a higher figure than Albania.⁶

The 1998 Household Living Condition Survey⁷ was based on interviews with a sample of 11,000 households, and produced results for settlements with more and with fewer than 10,000 inhabitants, which it described as urban and rural respectively. This Survey found that by the late 1990s two thirds of rural households lived in individual dwellings, mostly with their own garden, but that in urban areas two thirds lived in flats. It also found that 36% of dwellings had plastered walls, 4% were constructed using prefabricated bricks, and 29% with stones.

The Survey suggested a total of nearly 190,000 households living in flats, representing 25% of the total stock. Table 9 gives the breakdown.

⁶ Housing Statistics in the EU 2001, EU.

⁷ Results of Household Living Condition Survey, INSTAT 1998.

Table 9. Flats per building, 1998

	Urban	Rural
up to 10	14.9%	5.4%
over 10	72.1%	7.5%

The tenure of the housing stock

Public renting has declined since privatization, and there are hardly any dwellings left in public ownership, apart from some that are subject to dispute over restitution. These would account for less than 1% of the total stock. Local government bodies do not currently own any property or housing.

The extent of private renting is difficult to assess, though the 2001 Census should provide a clearer picture when the detailed results are available. The 1998 Household Living Condition Survey suggests that 5%, or nearly 40,000 dwellings, are not owned by their occupants, with a proportion of 12% in urban areas and 2% in rural areas. Some two fifths of non-owners were found to be occupying a free flat. The private rented sector includes those households still living in properties returned to their original owners, possibly 4,000-6,000 dwellings. The Survey also estimated that some 29,000 households owned another flat. There are some private agencies advertising flats to let, which suggests that a formal rental market has developed, though most likely only in urban areas and catering for higher-income households.

B. The adequacy of the housing stock*The quantity of the stock*

Comparison of 1989 Census data with other countries in transition shows that by the end of communism, Albania had one of the lowest levels of housing provision in Europe. Apart from the number of households per dwelling, on all the indicators in table 10, Albania provided markedly less housing than all the other countries.

Table 10. Comparison with countries in transition

	Dwellings per 1000 people	Households per dwelling	Persons per room	m ² per person
Albania	219	1	2.70	8.0
Poland	296	1.06	1.02	18.2
Lithuania	329	1.06	1.30	19.7
Slovakia	334	1.00	1.14	21.9
Slovenia	338	0.95	1.33	19.0
Romania	341	0.95	1.19	17.4
Latvia	370	1.13	1.21	20.9
Hungary	385	0.99	0.92	32.1
Czech Republic	397	1.01	1.04	25.5
Bulgaria	405	0.88	1.00	16.7
Estonia	410	1.03	1.18	32.0

Source: Hegedüs et al, MRI Budapest 1996.

The 1989 Census provided a breakdown of dwellings by number of rooms and floor area. The data in table 11 confirm the low level of space provision at that time and the urban-rural difference.

Data available from the 2001 Census show that the number of dwellings per 1,000 people has risen from 219 in 1989 to 253 in 2001, still lower than all the other East European countries in the early 1990s. The urban-rural difference has persisted, with a higher figure of 272 for rural housing, and 235 in towns and cities.

Table 11. Size of dwellings, 1989

Total rooms	% Urban	% Rural
1	65	35
2	30	40
3	4	18
4+	1	7
Floor area		
up to 20 m ²	26	15
20-40 m ²	52	32
40-60 m ²	19	37
60 m ² +	3	16

Source: 1989 Census.

The 2001 Census found that an average of 4.46 persons lived in each occupied dwelling, with an urban-rural differential of 4.15 and 4.72, respectively. The lowest averages were found in Vlore and urban Gjirokaster, both around 4, and the highest in Diber and Kukes, between 5 and 5.3.

The 1998 Household Survey confirmed the extent of overcrowding, with one in seven dwellings being shared by more than one household. On average two people shared each room, but urban households were more likely to say that they had insufficient space. Just over 40% of households thought that they had too little space.

The 2001 Census made the first systematic count of unoccupied dwellings, finding a total of 92,124, or 13% of the total stock. The vacancy rate is slightly higher in rural areas, and greatest in Vlora (24%) and the rural part of Gjirokaster (26%). The lowest vacancy rates, of around 5%, were found in the rural parts of Elbasan, Kukes and Lezhe. The Census commentary suggests that the vacancy rate can be used as an indirect indicator of migration processes.

The quality of the stock

The housing stock in 1945 had low standards, and a poor infrastructure. As late as the 1980s it was suggested that over 1,000 villages were some distance from a spring or relied on a seasonal water supply. In 1970 publicity was given to the provision of electricity to all villages.⁸

The extent to which modern facilities were available by the end of communism is indicated by the 1989 Census. This shows that 16% of *buildings* had piped water and 30% had an indoor toilet. The lack of facilities was greater in rural areas and in private housing, for example 85% of urban public buildings had piped water compared with 4% of private rural buildings. The Census report does not identify the number of *dwellings* without facilities, but from the tenure and location of buildings it can be estimated that around 30% of dwellings would have been without piped water.

More recent standards can be assessed from the 1998 Household Living Condition Survey. This found that over half of the households had no indoor toilet, over a third lacked running water and three quarters running hot water. Although this suggests an improvement since the 1989 Census, the figures in table 12 show that the considerable urban-rural difference persisted.

Table 12. Households lacking amenities, 1998

	% Urban	% Rural
No indoor toilet	18	74
No running water	5	54
No running hot water	61	93

Most urban households surveyed had access to running water but many experienced regular cuts in supply. A fifth of all households reported a leaking roof or damp walls, and a quarter reported having

⁸ Hall D., chapter on Albania in *Housing Policies in Eastern Europe and the Soviet Union*, 1990.

broken windows. Nearly a third of all households considered that their environment was polluted, as did over half of households occupying flats.

The Household Survey found quite different heating patterns between urban and rural areas. Three quarters of rural families used wood, most of the remainder electricity. In urban areas over half the households used electricity, another quarter wood and 10% used gas. Half of the families interviewed stated that they had experienced electricity cuts. From the information available about the heating used in 1998, the proportion of Albanian households with central heating could be similar to that of the former Yugoslav Republic of Macedonia, which had 12% in 1991.

The 2001 Census collected details of water supply, toilet facilities and heating for all dwellings. When analysed, this will give a more detailed picture of housing standards in 2001.

The Household Survey found that in urban areas around a third of the households had carried out improvements. The data from construction company declarations given in table 7 suggest that in the formal sector some 10% of construction activity could be in the form of renovation.

C. The construction industry

The Albanian construction industry is based on private enterprise and plays an important role in the housing sector by constructing buildings and infrastructure.

The "self-build" tradition in housing construction has been continued, though with less control than in the communist era. The "self-build" approach has extended to the urban fringe, while much urban housing production has been transferred from the State to a variety of private sector bodies.

By 1990 there were 35 building materials companies, including 4 producing cement and 19 producing bricks, most with obsolete technology. Each of the 26 districts had its own construction enterprise. These had gradually become less efficient, partly due to pressure to retain the labour force. Public construction enterprises employed over 50,000 workers in the early 1990s.⁹

The old public sector system is gradually being replaced by a flourishing post-1990 private sector. The construction sector is now estimated to include 70 joint ventures and 50 wholly-owned foreign companies.

Demand for construction in the 1990s increased owing to a number of factors including the housing shortage, and construction activity has increased rapidly apart from the crisis year of 1997. The construction sector has made an increasing contribution to gross domestic product, and although construction enterprises constitute 21% of all enterprises, they produce 60% of the total product. The construction activity trend is shown in table 13.

Table 13. Construction activity

	As % of GDP	Annual growth (%)
1991	6.6	-28.10
1992	7.6	7.00
1993	9.1	30.00
1994	9.6	15.00
1995	10.3	21.20
1996	11.4	18.50
1997	11.2	-6.30
1998	12.5	21.00
1999	8.9	15.00
2000	9.7	17.00
2001	10.3	14.00

Source: INSTAT.

⁹ Albania Housing Project Report, World Bank 1993.

Construction enterprise declarations for 1997-99 show a growing construction sector with 880 firms in 1997 rising to 1,291 in 1999. The declarations for 1999 show that there were 12,698 employees in the sector, and 74 construction firms with more than 50 employees. As a proportion of the value of work undertaken, housing accounts for less than 30%. Some enterprises that made higher profits, such as the Petroleum Institute of Fier and the Institute of Insurance of the General Directorate of Durres Harbour, provided housing facilities for their employees.

Within construction generally the value of housing increased from about a third in the early 1990s to about 60% by 2000. The private sector has been the main supplier of housing during the transition accounting for 70% of the houses built during 1992-1998, including the informal private sector.

The housing construction sector is made up of three layers of firms. There are a few large, high-capacity builders mostly operating in Tirana, a moderate number of medium-sized formal contractors, and hundreds of small-scale builders operating in both the formal and informal sectors. In the informal sector there is a considerable amount of "self-build" activity.

New housing is produced by different sub-markets. The sub-market for flats operates in urban areas and is dominated by formal construction companies, which act as both developer and contractor. Landowners usually receive a percentage of the completed units, and typically 30% of the project cost is obtained up-front from the buyers of the flats. The informal market is characterized by single-family homes with client-led construction, often on unserviced land, and without clear title.

Considerable upgrading has been undertaken on some former public sector buildings. All manner of extensions have been added to the sides and top of buildings, with a variety of standards, including safety standards. These range from extending the size of existing flats, for example by enclosing a balcony, to adding complete new flats. Some have the effect of vertical informal development, with different floors completed by individual occupiers at a time of their choosing. In many cases these extensions have been undertaken without permission, with some deteriorating the physical aspect of the area, occupying spaces between buildings, or with a possible risk to the stability of structures.

The most common form of construction is concrete frame with brick or block in-fill. There is a major concrete producer, employing some 1,000 people with two factories in Albania. It is a joint venture, planning to undertake a major investment programme so that annual production can increase to 1.2 million tons. There are 27 brick factories, all privatized, producing 180 million of the estimated 500 million bricks needed for current levels of construction. Bricks are imported from Italy, Greece and the former Yugoslav Republic of Macedonia.

The construction sector can have an important multiplier effect on employment and the economy. Trade figures for 1995-2000 in table 14¹⁰ show that imports of construction materials have continued to increase, and that the deficit of imports over exports has increased, reaching some \$100 million in 2000. Greater production of building materials within Albania will help the local economy, but weak border controls mean that it is still possible to bring materials into the country without paying duties.

Table 14. Construction materials trade

	Imported in million leks	As % of all imports	Exported in million leks	As % of all exports	Difference in million leks
1995	4,469	8.3	1,844	9.9	2,625
1996	6,757	7.1	2,465	11.2	4,292
1997					
1998	12,581	10.5	1,665	5.4	10,916
1999	13,265	11.0	2,147	6.0	11,118
2000	18,052	11.9	3,213	8.6	14,839

The quality of construction varies, as building control is limited, even in the formal sector. Poor-quality materials and methods can be used, and it is possible that lower-quality materials are being

¹⁰ From Albania in Figures 1997 and 2001, INSTAT.

imported into Albania. Controls are even fewer in the informal sector but here the standards appear to be reasonable even though building norms and urban plans may be disregarded. There is little concern for design, and the main limiting factor appears to be land availability. Development is undertaken with little regard to the infrastructure, which both the formal and informal sectors help to overload. Even in higher-income developments, limited provision may be made for car parking. A particular concern is the lack of earthquake risk regulations. Albania has experience of earthquakes, for example Shkodra in 1979, and there is little evidence that appropriate measures are taken during new construction.

A World Bank survey in 1998¹¹ concluded that corruption was a major problem in Albania, including for businesses. The survey found that 72% of the construction firms admitted paying bribes to public officials, a greater proportion than for other firms, and that bribery accounted for 7% of their turnover.

D. House prices and need

The variation in house prices

During the communist era property could not be traded so there was no market for housing, and property exchange was controlled by the State. Rents for public sector flats were largely symbolic, with no relationship to the costs of providing housing or to variations in demand or quality.

The introduction of a market system since 1990 has produced considerable variation in house prices in different areas. The average price of a dwelling supplied by the National Housing Agency, which reflects building costs, has increased from nearly 11,500 leks before 1996 to just under 19,200 leks during 1996-98, and rose to 29,200 leks in 2000. Though not affordable for many households, this increase was broadly in line with increases in average labour wages.

A 1999 housing market study¹² found the market price for a 75-90 m² flat to be in the region of \$25,000-40,000. It found that the market price of dwellings had increased from \$200/m² in 1993 to \$280 in 1996/97 to \$370 at the start of 1999. The UNDP Human Development Report of 2000 mentions newly built houses in cities selling for \$300-600/m².¹³

Land values in Tirana now range from \$500/m² in the centre to \$25/m² in informal settlements at the city boundary. Construction costs for detached houses range from \$60 to \$180/m², and between \$210 and \$240/m² for flats.

An indication of the variations in house prices in different areas is provided by the calculation of the market prices of houses by the National Housing Agency.¹⁴ Data for four years are available, for 46 locations in 2000 and 2001, and for 36 districts, except Tirana, for which the figures for 1995/96 and 1998 are missing. These show the cost of housing in leks per m².

The house prices for 2001 range from 62.77 leks/m² in Durres to 8.91 leks/m² in Memaliaj (Tepelene). So an 80 m² apartment would cost \$65,000 in Durres or \$5,000 in Memaliaj. The overall pattern shows that prices drop from the peak in Tirana/Durres, level off gradually going south, and very quickly going north-east. The coastal area has higher prices both north and south, with Lezhe especially high compared with the northern coastal strip. The Berat/Permet/Gjirokaster area has a moderate price range, whilst in the eastern mountains, higher prices are found around Kukes and Korca.

It is possible to compare changes in recent years. Details for the 15 largest districts, which account for 85% of the urban stock, are shown in figure VIII. This shows wide variations in prices, with a widening gap between prices in cheaper and expensive areas. There is a general increase of 20% a year

¹¹ Combating Corruption in Albania, World Bank 1998.

¹² Stanfield D et al, Emerging real estate markets in metropolitan Tirana, University of Wisconsin-Madison, 1999.

¹³ UNDP, Human Development Report, 2000.

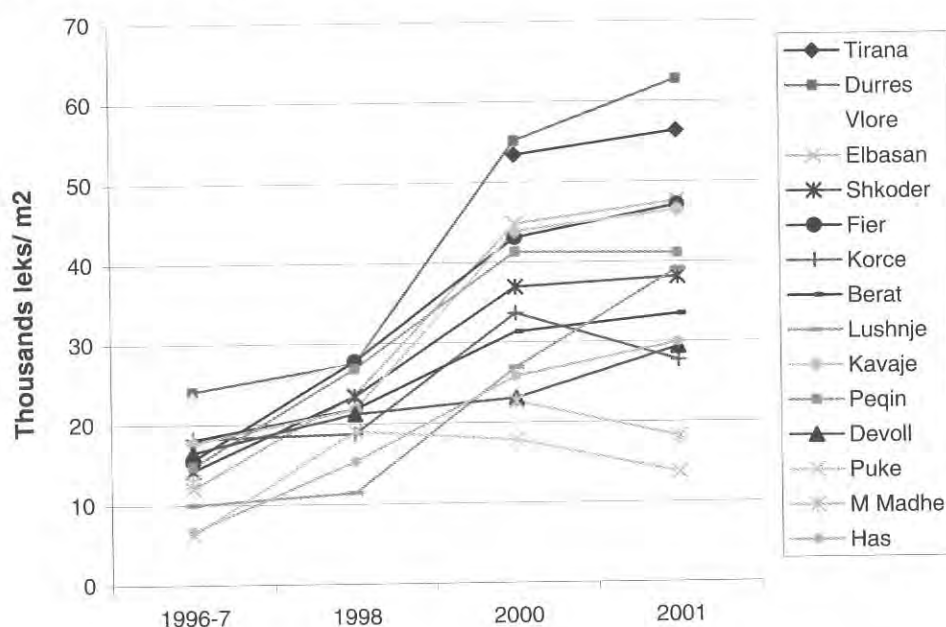
¹⁴ Data provided by the Ministry of Territorial Development and Tourism, February 2002.

or more for most of these areas, but with a wide variation in the rate of increase. Elbasan and Lushanje have increased rapidly, whilst Korca, Gjirokaster and Sarande have dropped in the past year or two.

In smaller towns it will be more difficult to estimate free market prices, as the turnover of properties in a formal market may be small. Generally prices in the smaller towns are lower, some as low as 10,000-15,000 leks/ m² in 2001.

It is unlikely that wages and incomes vary to this extent, either between areas or over time, so any housing intervention that takes account of affordability will need to allow for this variation.

Figure VI. Market prices by area



Housing need

At the end of the communist era there was a housing shortage, with an estimated 55,000 additional flats needed to meet space standards at that time.

In the formal housing sector real estate developers actively constructed new housing in the late 1990s, but mainly for households with higher incomes. This housing boom has stimulated the market in such a way that the affordability of all housing units has been affected. There is now an affordability gap in the formal housing market, effectively pricing out of the market those households who do not receive foreign remittances or income from the black economy.

Legislation during the 1990s defined a number of priority groups that may receive assistance with housing. The Albanian Human Development Report for 2000 includes figures for certain categories of homeless or inadequately housed people, including 10,200 households whose houses are subject to restitution, 6,000 families of ex-political prisoners, 35,176 overcrowded households, and 6,000 households who lost their houses in pyramid schemes.¹⁵

The most recent figures¹⁶ show 46,149 households registered by local authorities, nearly 6% of the total. Table 15 shows the distribution by prefecture.

The variation is greater at district level, and in Tirana, despite its high house prices, the number of registered homeless people corresponds to less than 4% of its housing stock.

¹⁵ UNDP, Human Development Report, 2000.

¹⁶ Data provided by the Ministry of Territorial Development and Tourism, 2002.

The highest priority for the Government has been families subject to displacement because of restitution. Around 2,000 restitution claims are for land that includes dwellings, and an average of 2.5 dwellings per claim would mean that up to 5,000 families may need to move. The buildings in public sector ownership and built before 1945 recorded by the 1989 Census totals 3,600, all of which are potentially subject to restitution. Tirana municipal officials reported some 1,200 households subject to restitution.

Table 15. Homelessness

Prefectures	Registered	As % of stock
Lezhe	3,725	10.03
Durres	6,358	9.87
Gjirokaster	2,823	8.03
Vlore	4,717	7.38
Diber	2,774	6.71
Shkodra	4,396	6.50
Kukes	1,459	6.48
Berat	2,877	5.87
Korce	3,938	5.59
Tirana	6,378	4.09
Elbasan	3,337	4.01
Fier	3,131	3.36
Total	46,149	5.89

Source: Ministry of Territorial Development and Tourism, 2002.

Tirana

Tirana is the largest urban settlement with 17% of the nation's housing stock. Many of the pressures of the housing market are most noticeable in Tirana, but it is clear from house price and permit data that other areas, in particular Durres, may share similar pressures.

The 1989 and 2001 Censuses show that the total dwelling stock in the Tirana district increased by 40%, reaching over 134,000 dwellings in 2001. This represents an average increase of over 3,000 dwellings a year. The district includes areas surrounding the city, with some 70% of households in the municipality in 2001. Allowing for the conversion of ground-floor flats to commercial use, more than 40,000 new dwellings have been built since 1990. This is an estimate of new dwellings after deducting the loss of some stock to non-residential use.

The share of the Tirana housing stock owned by the public sector, around 80% of the public stock in 1989, has dropped greatly. A land-use study in 1998¹⁷ found that a mere 12% of flats in the city were publicly owned. This study also found an average of 27 flats per building, much higher than the 2001 Census, which for urban parts of Tirana reported fewer than three dwellings per building.

Since 1990 Tirana has attracted many migrants. The 1998 Household Survey found that three quarters of the households in Albania had moved since 1990, with 60% of them moving to Tirana, producing a total in-migration figure of some 110,000 households. An estimated 200 hectares a year is being added to the land in residential use.

The considerable pressure on the greater Tirana housing market has been met by the formal sector, mostly in the form of high- to mid-rise blocks of flats, and by informal housing. Informal housing includes building on unserviced land on the outskirts of the city and additions to existing blocks of flats.

The sub-market for flats in Tirana has soared during the 1990s in part owing to the exceptionally high rates of return that were possible. There are signs that the market may have become saturated, with the possibility of a slow-down and a search among developers and lenders for lower-income provision. One real estate agent has surveyed 100 blocks of flats out of an estimated 350-400 that have been built in Tirana since the early 1990s. They range from 5 to 18 storeys.

¹⁷ Stanfield D et al, Emerging real estates in metropolitan Tirana, University of Wisconsin-Madison, 1999.

Prices were surveyed for one-, two- and three-bedroom flats for sale at one private agency during February 2002. The floor areas ranged mostly between 90 and 125 m². Most flats were offered in the region of \$350-400 or \$450-525/m², but one two-bedroom flat had the much higher price of \$600/m². The same agency offered flats to rent. One- and two-bedroom units were offered at between \$210 and 220 or \$250 and 260 a month, with one at \$285 a month.

A quarter of households are estimated to live on the periphery of the municipal area. Informal housing now accounts for up to two fifths of the urbanized area. In the Lapraka and Bathore areas that have been informally settled since 1993/94, there are now over 2,500 dwellings. Occupants have generally moved from rural areas, where housing amenity standards are low, bringing with them the "self-build" tradition. A World Bank assessment¹⁸ concluded that much of the informal housing was built to a reasonable standard but lacked adequate infrastructure. Possibly half of the households in the city live in areas that do not have proper access to water, electricity or waste disposal. Informal owners are less likely than flat owners to view their property as a tradable asset, but this form of housing has provided a flexible response to housing needs, allowing families to build gradually and extend their housing when their finance permitted. The value of informal housing construction is estimated at \$40 million a year.

Considering the pressure within the housing market it is surprising that the 2001 Census found a vacancy rate of 10% in the district and 12% in the urban part of Tirana. Until more detailed results are available from the Census it is difficult to explore the reasons why some 12,000 dwellings in Tirana were recorded as unoccupied.

Estimates made by PADCO¹⁹ for the Greater Tirana Strategic Plan start from a household total of nearly 128,000, and forecast 160,000-149,000 households by 2007 and 192,000-169,000 households by 2012. These estimates assume a gradual reduction in the rate of increase. The PADCO study concluded that land availability and land affordability were not major constraints. It also noted that the development of a functioning land market would be hampered by a number of factors including poor land titling, inadequate infrastructure, a shortage of formal sector finance, and the fact that many low-income households do not consider their land to be an investment asset. The study concluded that the infrastructure, i.e. water, sewerage, roads, solid waste disposal and electricity, all required improvement to sustain the anticipated population increase. In particular the sewerage system is in need of massive investment to expand it. An environmental assessment has identified the potential health hazard posed by the pollution of groundwater supplies by the on-site sanitation methods used by the informal housing sector.

The PADCO study considered a mid-point increase of 80,000 households by 2017 and estimated how much of this could be absorbed through densification. It concluded that 21,000 households could be absorbed in the formal housing sector in the city whilst 34,000 households might be accommodated in informal areas. The remaining 25,000 households would require a 15% expansion of the current urbanized area.

¹⁸ Project Appraisal Document, World Bank, 1998.

¹⁹ PADCO, Greater Tirana Strategic Plan, 2002.

INSTITUTIONAL FRAMEWORK

The housing scene of Albania is full of new actors, who appeared after 1990. These are private owners (after the privatization of the housing stock and State enterprises), commercial banks, property developers and various other agencies dealing with housing matters. The roles of governmental and local public bodies, too, are changing. This chapter describes the role of different organizations at a national level such as parliamentary commissions, governmental or local public structures, private enterprises and corporations, professional, homeowners' associations and other relevant associations and institutions. The main objective is to describe the organizational structure of the housing sector in Albania as well as its viability and sustainability.

A. Public institutions

People's Assembly (Parliament)

Albania is a parliamentary republic. The head of State is the President, who is elected by the People's Assembly by a majority of two thirds for a five-year mandate, with the right to be re-elected once. The system of government is based on the separation and balance of legislative, executive and judicial powers. Legislative power belongs to the People's Assembly, which consists of 140 members. One hundred of them are elected directly in single-member, approximately equal constituencies. Forty deputies are elected from multi-name lists of parties or party coalitions according to their ranking. Deputies may not exercise any other public office with the exception of that of a member of the Council of Ministers. The Assembly elects standing commissions from its ranks and may also establish special commissions.

There are 13 parliamentary commissions:

The Permanent Commission on Constitutional Issues and Laws;

The Commission on Human Rights and Minorities;

The Commission on Foreign Policy and International Relations,

The Commission on the Economy, Finance and Privatization;

The Commission on Defence,

The Commission on Public Order and the Information Service;

The Commission on Public Information Means;

The Commission on Labour and Social Affairs;

The Commission on Agriculture and Food;

The Commission on Industry, Transport, Public Works and Trade;

The Commission on Education, Culture, Science and Sports;

The Commission on Health and Environmental Protection;

The Commission on Immunities, Mandates and Procedure.

The Commission on Industry, Transport, Public Works and Trade deals with housing. The Commission on Labour and Social Affairs is indirectly linked to housing issues, as it deals with social protection policies, etc. The Commission on the Economy, Finance and Privatization is also involved, since it discusses the budget for all public expenditures, including housing.

Council of Ministers (Government) and other governmental structures

The Council of Ministers is the highest executive body in the country. The President appoints the Prime Minister, the People's Assembly has to ratify this choice. The appointment may take some time and if the Assembly fails to elect a new Prime Minister, the President dissolves the Assembly. The ministers also are appointed and dismissed by the President on the proposal of the Prime Minister. The Assembly has to ratify these appointments. The Council of Ministers adopts decisions and instructions, which have to be validated by the signature of the Prime Minister and the respective minister.

The new Government was appointed in February 2002 and is composed of 18 ministries. Only a few of them deal with housing matters. Among them are:

The Ministry of Finance, responsible for budget allocation for all ministries, including the “construction of housing”. When a draft decree is prepared this Ministry must give its opinion.

The Ministry of Labour and Social Affairs, responsible for the social protection and social aid policy, it identifies vulnerable groups and prepares policies that address these groups. The Ministry of Territorial Development and Tourism (former Ministry of Public Works and Tourism) collaborates with this Ministry in the housing of vulnerable groups.

The Ministry of the Environment, responsible for the preparation of environmental protection policies and monitoring. There are indirect links to housing matters in terms of housing development, as new constructions occupy new territories, which may hamper sustainable development.

The Ministry of the Economy (former Ministry of Economic Cooperation and Trade), responsible for coordinating aid from different donors.

The Ministry of Agriculture, responsible for agricultural development policies. There are indirect links with housing issues in terms of housing development, as new constructions on new territories might occupy arable land.

The Ministry of Defence, indirectly linked to housing policies for military personnel and transformation of military barracks into housing stock as well as the **Ministry of Public Order**.

The Ministry of Justice, responsible for preparing and monitoring policies, the preparation of the legal acts and normative acts concerning the judiciary system, the application of civil and penal decisions, the harmonization and reform of the Albanian legal framework as a whole, etc. When a draft decree of the Council of Ministers is prepared this ministry must give its opinion.

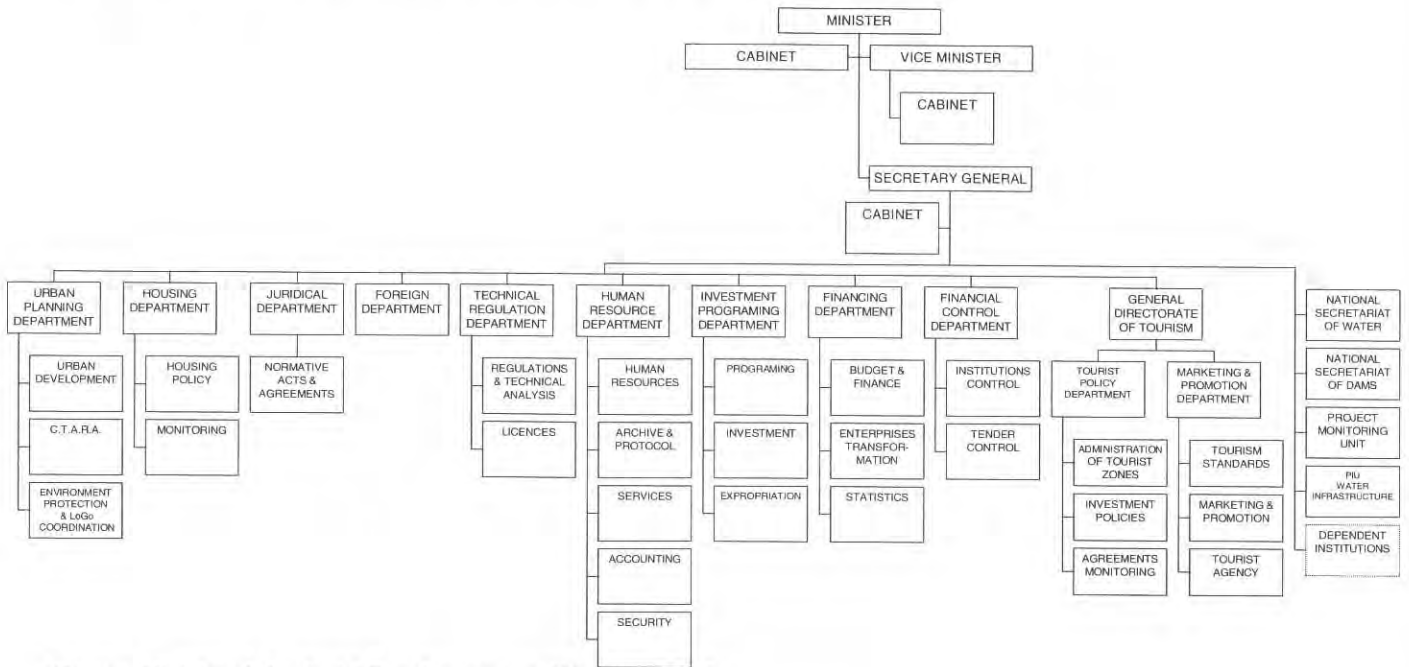
The Ministry of Territorial Development and Tourism (formerly Ministry of Public Works and Tourism, and Ministry of Public Works and Transport), plays the central role in the housing sector. The Ministry is responsible for overseeing (including monitoring):

- All budget-financed activities including housing;
- All activities related with housing policy at the national level
- The provision of public services such as water supply, sewerage, rubbish collection and other community facilities; and
- The control of land development over the national territory;
- The preparation of policies for the development of tourism.

The main central government organization for housing, and the main counterpart for this Country Profile, is the Ministry of Territorial Development and Tourism. In recent years it has changed name several times from the Ministry of Public Works and Transport, to the Ministry of Public Works and Tourism and, since February 2002, the Ministry of Territorial Development and Tourism.

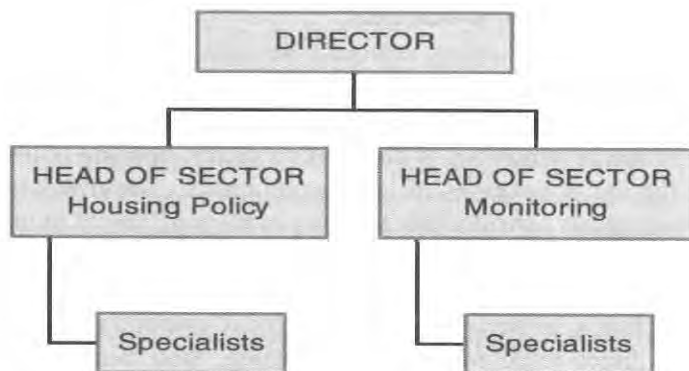
Within the Ministry, there is a **Housing Department**. **The mission of the Housing Department** is to create the necessary legal, financial and institutional frameworks that make it possible for all groups of society to have equal access to adequate housing based on their ability to pay and on their social and health status.

Figure VII. Ministry of Territorial Development and Tourism



Source: Ministry of Territorial Development and Tourism, 2002.

Figure VIII. Housing Department of the Ministry of Territorial Development and Tourism



Source: Ministry of Territorial Development and Tourism, 2002.

The Housing Department is responsible for:

- Supporting, implementing and adapting the objectives of the government in policies and programmes for housing;
- Improving the performance of the National Housing Agency and local government in the implementation of the housing policy;
- Conducting research on housing development trends, based on a databank;
- Recommending necessary changes to existing housing policy.

The Housing Department consists of two sections:

(i) *The Housing Policy Section*

- Prepares housing policy and strategy based on the principal orientations of government policy and on demographic and urban studies, and prepares national and regional plans for housing development;
- Prepares the necessary legal framework for housing policy activities;
- Deals with the housing problems of the urban population at national level, ensures equal access to housing and establishes adequate standards for housing for all, based on the ability of families to pay;

- Ensures the creation, rehabilitation and maintenance of the housing stock;
- Communicates and deals with the population's housing issue claims;
- Maintains and strengthens links with domestic and foreign housing organizations and institutions; identifies the scope of collaboration with these organizations and monitors implementation.

(ii) *The Monitoring Section*

- Supervises and monitors the implementation of the National Housing Agency's national and regional programmes;
- Supervises and monitors the implementation of housing tasks and activities incumbent on local government;
- Collects and prepares information and data on public and private housing;
- Identifies and draws up key housing indicators on which monitoring will be based;
- Based on the available data and information, prepares studies for new trends in housing;
- Keeps in contact and collaborates with the National Institute of Statistics (INSTAT) for data collection.

There are a number of organizations under this Ministry: the National Urban Planning Institute, the Institute for Building Technology and Construction, the Water Supply Institute, the National Housing Agency, and the Construction Police.

The Ministry of Local Government and Decentralization, established in 1999 (previously a division in the Ministry of Internal Affairs), has the following responsibilities:

- To prepare the new legal acts and improve the legal framework for the development of local government activities and for the decentralization of functions;
- To implement the legal provisions concerning local government;
- To increase local government capacities through training, seminars, best practices etc.

There is a special division at the Ministry for dealing with prefects.

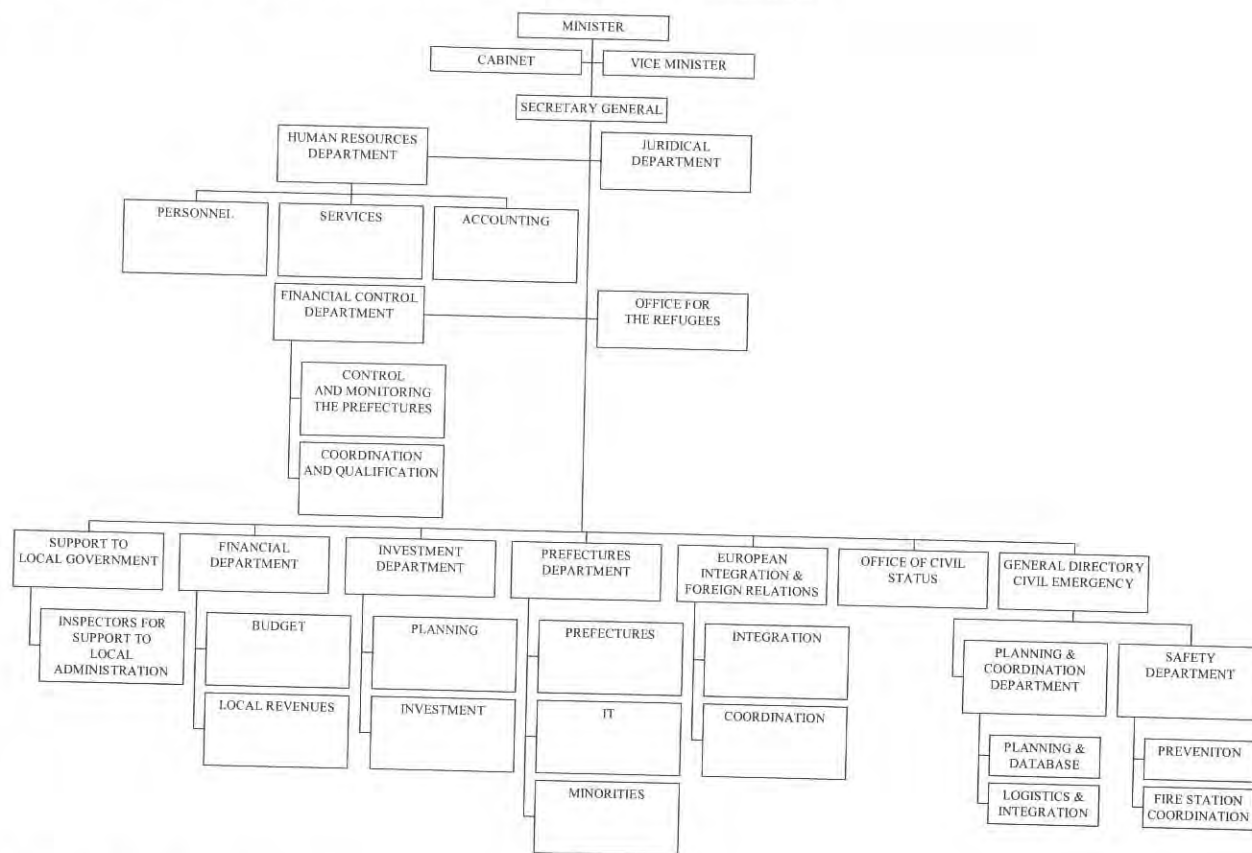
Although this Ministry could have a role in the development of the housing sector, housing issues are not on its list of priorities, nor are they on the list of priorities of local government. Nevertheless, international experts and local government representatives consider this Ministry to be well placed in the institutional framework of the country.

Prefects - Each of Albania's 12 regions has a prefect appointed by the Government as its representative. Although prefects do not have direct responsibilities for housing, they need to be mentioned since they exercise extensive control over local government activities and decisions. The role of the prefect is to ensure that the local authorities operate within the law and to check the legality of their decisions. The Ministry of Local Government and Decentralization is currently preparing the legal framework covering the activity of the prefects.

The National Urban Planning Institute (ISPU) is a State enterprise, established in 1995, 100% financed by the State budget. The Institute has two sections, one for urban and rural development and another for tourist development, and three groups for norms and techniques, for green area studies and projects and for infrastructure. The Institute works under the Ministry of Territorial Development and Tourism. The Institute's experts, who total 41, have been involved in projects for:

- Regional and environmental urban planning studies;
- Master plans;
- General development plans;
- Partial urban planning studies.

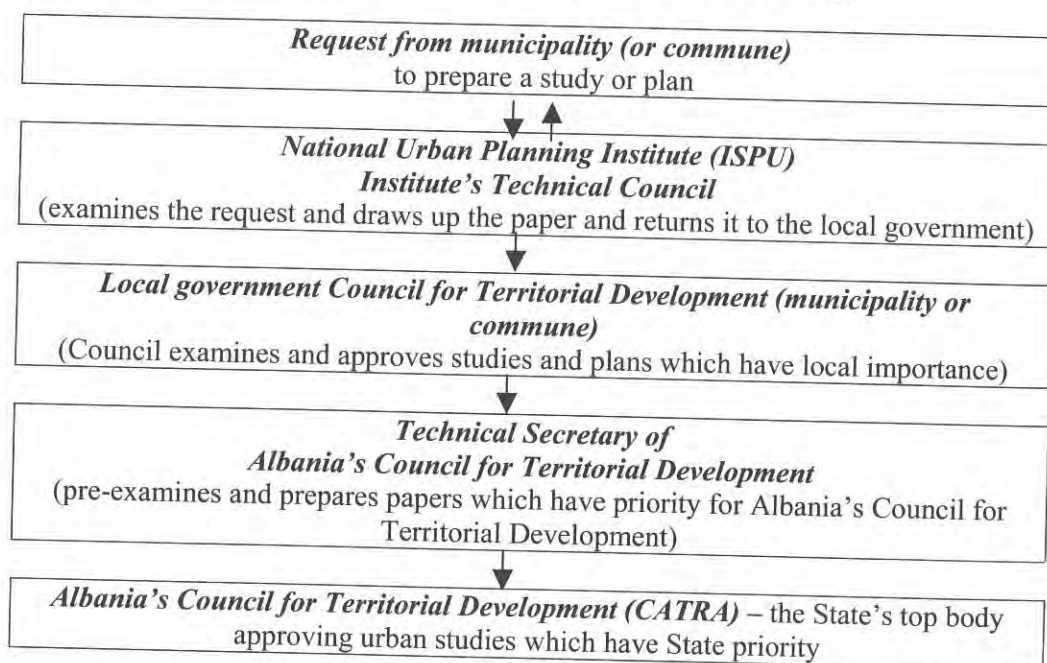
Figure IX. Ministry of Local Government and Decentralization

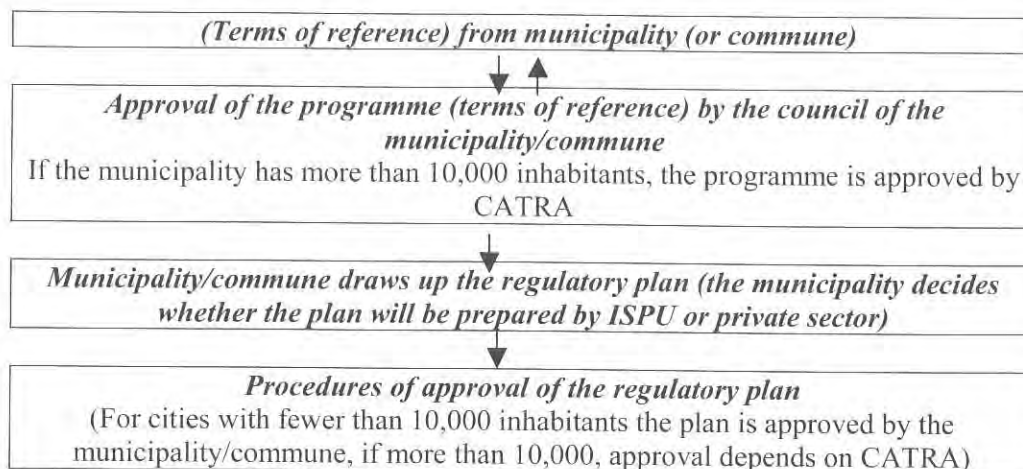


Source: Ministry of Local Government and Decentralization.

It can take from 1.5 to 2 years to prepare a study. The Institute is the only public body in this field of activity. The main beneficiaries of the Institute are central and local government and they get the studies for free. ISPU can prepare regulatory plans for municipalities or communes which want such work but have no capacity (human or financial) to carry it out.

The procedure for obtaining an approved study (or plan) is the following:



Activity flow for the approval of a regulatory plan:

The National Housing Agency (NHA) is a State enterprise, established by Government Decree No. 198/1993 under the Law on State Enterprises for the economic reform of the housing sector and for the financing, allocation and administration of certain dwelling houses. The establishment of NHA was related to the housing reform that started in 1992-1993. In the reform process the Albanian Government was assisted by the World Bank, from which it obtained US\$ 15 million for a housing programme. The aim of the programme was: (i) to complete the construction of unfinished public flats and to put them on the market, (ii) to secure long-term repayment of these flats with a mortgage collateral, (iii) to trade in smaller, privatized dwellings against the purchase of larger flats, (iv) to establish the National Housing Agency as an effective agent of reform, and (v) to broaden the role of private sector operators in housing supply (investors, developers, contractors, suppliers, banks and brokers).¹

The NHA is an administrative unit under the Ministry of Territorial Development and Tourism. According to the final Decree, No. 40/2001, the NHA Board consists of: a representative of the Council of Ministers (the economic counsellor of the Prime Minister), four representatives of the Ministry of Territorial Development and Tourism, one representative of the Ministry of Finance and a representative of the Ministry of Local Government and Decentralization. The representatives of the Ministry of Territorial Development and Tourism vary from time to time: for the moment the Ministry is represented by the Vice-Minister (who is also the Chairman), the Secretary-General, the Director of the Housing Department and the Director of Water Reservoirs. The Minister of Territorial Development and Tourism appoints the General Manager from among two candidates nominated by the Board. The General Manager has the main executive rights and proposes for election by the Board at least two candidates for the directors of departments of the general directorate, the regional directors and chairmen. The total staff of the NHA is 150, including 50 persons in the central administration. The Agency has six branches in different regions of the country. Its annual accounts must be reviewed and certified by independent auditors and, together with an annual report on financial activity, they are submitted to the Council of Ministers.

At present, the main objective of NHA is to provide new housing by searching for finance for housing construction, providing loans to eligible purchasers, including private individuals, and building dwellings. According to the above-mentioned Decree No. 198/1993 as amended in 2001, NHA should also carry out feasibility studies, prepare plans to meet effective demand, obtain (buy) building sites based on urban studies, put up projects for tender, supervise their execution, sell and buy housing units on the free market for people on the waiting lists, and rent flats until they are sold. The NHA is authorized by the State to own and sell a property until the full liquidation of any financial obligations that the client may have on the house. The Agency meets these responsibilities. But other provisions are not respected, for instance, acting as the founder of condominiums in housing built with State funds and then representing the State in these associations. No condominiums or homeowners' associations have been established by the NHA.

¹ Doris Andoni, IHS and Lund University, *The Impact of Housing Policy on the Poor in Albania*. Rotterdam, 2000, p.52.

After nine years of activity, the National Housing Agency's results are not up to expectations owing to various political, legal and structural/organizational problems. It is difficult to get reliable information about its achievements in English, but local experts point to the poor efficiency of NHA in providing housing, and in collecting and generating funds. The poor efficiency is due to the internal organizational and staff efficiency, professionalism and accountability, and also to external political and legal influences, which have transformed the NHA into an agency dependent on the State budget, without initiative and self-reliance in generating and using funds. The legal and financial issues related to housing provided by NHA are dealt with in chapters IV and V.

The Construction Police, founded officially in 1998, had been functioning since 1993 as the Department of Building Control and Expertise in the present Ministry of Territorial Development and Tourism. This body, which is 100% financed by the State budget, works under the Ministry of Territorial Development and Tourism; its General Director is appointed directly by the Prime Minister and the Deputy Director by the Minister. About 60% of the fines obtained go to the State budget and 40% remain for Police needs. The total Police staff currently numbers 150 and includes technical and legal offices, groups for demolition and administrative staff. The main responsibilities of the Construction Police are:

- Building control;
- Urban planning control; and
- The demolition of illegal constructions.

If the representatives of the Construction Police during a control discover some irregularities they can apply penalties or resort to demolition. Demolition can be carried out at the request of the Council for Territorial Development. In accordance with the Law on Urban Planning: (i) the expenses of the demolition are charged to the owner, (ii) the execution of decisions by Councils for Territorial Development, Construction Police and fine-charging bodies are not suspended by an appeal in court against them. If the court's final decision is in favour of the accused or the appeal is accepted, the persons affected have the right to demand compensation for the damage done. The Public Police supports the Construction Police in its demolition activity. (For more details about the legal framework for Construction Police activity, see chapter IV.)

The number of demolitions in 2001 in Tirana totalled 1750, but there were no demolitions of illegal houses by the Construction Police in Kamza, near Tirana. One weakness in the activity of this body is the absence of construction quality control from its list of responsibilities.

Property registration

Albania, like other East European countries in transition, resorted to the privatization of State properties, including land and State-owned flats, and this meant that it was necessary to establish a new system of property registration. In 1993, the Government approved an "Action Plan for Immovable Property Registration and Other Land Market Activities", under the management of the Project Management Unit (PMU), an independent entity chartered by government decision. The PMU is to coordinate the creation of a land market institution, particularly a new system for the registration of all immovable properties (Immovable Property Registration System, IPRS).²

Till 1998 the *Ipoteca office* was responsible for the registration of property rights. The *Ipoteca* offices situated in the major cities, usually the district capitals, operated prior to 1976 as simple document depositories for deeds of sale and gift, mortgages, and inheritance of urban properties. A registry book was kept in each office, and a copy of the recorded transaction was filed in the *Ipoteca* archives. These *Ipoteca* offices were depositories for transaction contracts and had functioned in most cities until the constitutional provision from 1976 largely eliminated market transactions for State or cooperative ownership of all immovable property. As private rights to urban properties were gradually re-established in 1991, *Ipoteca* offices were reopened to register the privatized property under the Law on Privatization but were closed again in 1998.

² David Stanfield, Malcolm Childress, Artan Dervishi, and Lazar Korra. *Emerging Real Estate Markets in Metropolitan Tirana, Albania*, 2000, p.1.

In order to establish a more adequate registration institution, Parliament adopted in July 1994 the Law on the Creation and Operation of an *Immovable Property Registration System*. With the approval of the Registration of Immovable Property Law, the country started establishing a new system for the recording and displaying of rights to immovable property. Under the Law's provisions, Albania has been divided into 3086 rural cadastre zones and 134 urban cadastre zones, and 34 registration offices have been created. Each registration office maintains the *kartela* or registry page for all property in its jurisdiction and registers the property manually. About 95% of publicly and privately owned properties in the rural areas and 75% in the urban areas have been recorded in the registration offices. Initial registration is free of charge. The Registration (Cadastre) Office is implementing a project to build an information system, which is financed by the World Bank as technical assistance.

The Regulatory Agency for Water Supply and Sanitation was established under Law No. 8102/1996 as a legal entity. A Water Supply Commission has been established within this Agency. The Commission is competent to: issue licences to the companies that provide water supply services; approve prices and tariffs;³ define procedures and standards for water supply, drainage and the treatment of waste water; conduct studies for this sector of activity; set administrative and monetary sanctions; formulate regulations to help exercise the competencies and functions indicated by the Law and other related functions. Albania also has a *Regulatory Agency for Energy*.

B. Local authority institutions

General view

Local government in Albania is based on the decentralization of power, which is exercised according to the principle of local autonomy (Constitution, art. 13). The Constitution establishes two levels of local government, the communes or municipalities and the regions. The commune or municipality is the basic unit of local government, the region is the upper level of local self-government and is composed of several communes and municipalities that have geographic, traditional, economic and social ties. There are 74 cities, 65 of them being municipalities, 309 communes and 12 regions in Albania (see table 16 and figure I, page 2). Each of these units has its own local government, be they regions, municipalities or communes. The units of local government are legal entities and they have an independent budget.

The representative organ of local government is the council elected every three years by general direct elections with a secret ballot; the executive organ of a municipality/commune is the chairperson elected directly by the people in the same way as the council. According to the Constitution, the representative organ of the region is the regional council and the councils of communes and municipalities delegate members to the regional council according to the size of their population. The council has the right to issue orders with obligatory force to the region. The councils of communes, municipalities and regions have the right to administer their income independently; to establish and collect local taxes; to issue directives, decisions and orders. As mentioned above, the Council of Ministers appoints a prefect in each region. The powers of the prefect are defined by a special law.

Albanian legislation provides another local government structure called the circle (district), which is in fact a subdivision of a region. There are 36 circles (districts), the responsibilities of which are not clarified, but the Government has given them responsibility for establishing the Councils for Territorial Development.

The Constitution (art. 115) gives the Government the right to dissolve and discharge elected local government bodies "for serious violations of the Constitution or the laws". The elected body of a local government has the right to appeal within 15 days to the Constitutional Court and in this case the Government's decision is suspended. If no appeal is lodged within 15 days, or if the Constitutional Court

³ In accordance with the Law, the Agency shall design the methodology for the tariffs and the public shall be notified and given an opportunity to comment on the way in which the Regulatory Agency defines tariffs. Tariffs can be modified only once a year.

upholds the decision of the Government, the President of the Republic sets a date for new elections in the respective local unit.

Albanian local government development

Albanian local government before 1990s was essentially de-concentrated, with limited self-government bodies (elected councils) within the framework of a highly centralized decision-making system in charge of managing the implementation of detailed economic planning. In the 1990s the overall system became more decentralized. ...The reform of 1992 made it possible, for the first time, to establish politically autonomous local government. This must be considered a very important achievement. Some of the services and functions from which the public could benefit directly were passed to the local bodies. Though politically autonomous, they still lacked real administrative and fiscal autonomy.

In the first years of transition, the focus was mainly on central reforms to build the key institutions (parliament, government and judiciary) based on democratic models as well as on basic economic reforms (macroeconomic, banking, privatization, etc.). As a result, less attention was paid to local government reforms. ...Local government is characterized by a mismatch between responsibilities and the authority to act. The formal responsibilities of local government bodies are very large but their actual power is very limited.

F. Hodaj. Local Government in Albania. Tirana. 2001, p. 2

Table 16. Administrative units

No.	Regions	Municipalities	Communes	Villages in municipalities	Villages in communes	Towns
1.	BERATI	5	20	6	239	5
2.	DIBRA	4	31	15	264	7
3.	DURRESI	6	10	21	85	6
4.	ELBASANI	7	43	16	381	7
5.	FIERI	6	36	19	259	6
6.	GJIROKASTRA	6	26	6	265	6
7.	KUKËSI	3	24	6	179	3
8.	KORÇA	6	31	6	339	6
9.	LEZHA	5	16	32	137	9
10.	SHKODRA	5	29	15	257	6
11.	TIRANA	5	24	15	218	6
12.	VLORA	7	19	22	173	7
Total	12	65	309	179	2796	74

First level local government – communes and municipality councils

The representative bodies of the communes and municipalities are the councils, which are elected every three years by secret ballot. The mayor is the executive body of the municipality or commune and he is elected directly by the inhabitants by secret ballot. The councils have the right to delegate part of their competence to the executive body, especially in the operation and management of properties.

The first level of local government exercises its functions in drinking water supply, the maintenance of the sewerage and drainage system in inhabited areas, the construction, rehabilitation and maintenance of local roads, pavements and public areas, squares, the lighting of public areas, public transport, the cemetery and the burial services administration, parks administration; collecting, transporting and processing waste, urban planning, land management and housing as laid down in law.

In terms of housing, local authorities are responsible for:

- Keeping records of “homelessness” in their jurisdiction and forwarding them regularly to the Ministry of Territorial Development and Tourism for budget planning, and to the NHA and Savings Bank;
- Applying the law in cases of default of payment or when an NHA-built flat is occupied by squatters and substituting a family from the waiting list;
- Offering public land to NHA for housing construction for the “homeless”;

- Approving urban plans and building permits for the private sector;
- Controlling the implementation of building permits.

In accordance with Government Decree No. 204/1998, the local government budget contains: (a) expenditures for carrying out the above duties and functions; (b) revenues which are local taxes, fees, shared taxes, subsidies and loans (total number 13,⁴ but there is no property tax, which elsewhere generally constitutes the largest source of municipal revenue); (c) the difference between the expenditures and revenues of the independent local budget, which is financed by the block of non-returnable aid that the central Government transfers to each local government body. Local experts confirm that the local government budgets depend on central government transfers.⁵

Second level local government – regional councils

The representative body of the region is the regional council. In accordance with article 110 of the Constitution, “Municipalities and communes delegate members to the regional council in proportion to their population, but in any case at least one member. The mayors of communes and municipalities are always members of the regional council. Other members are elected through proportional lists from among municipal or communal councillors by the respective councils.”

In accordance with the Law on the Organization and Functioning of Local Government, the functions of the regional councils include:

- The establishment and implementation of regional policies which are harmonized with government policies at the regional level;
- Defining the right to exercise delegated functions from one or more communes or municipalities, with their agreement;
- Defining the right to exercise the authority delegated from the central Government.

The regional council’s competency in housing and land-use planning is still not clear. This does not create the conditions for it to exercise its main functions in preparing and implementing regional planning and housing programmes. The budget basis also remains unclear, since the legislation does not regulate the taxes or that part of them that goes through the regional council budget.

Local government properties

The Constitution recognizes the right of local governments to own property and to exercise all property rights within the limits of the law. Local government properties are divided into two types: properties in the public and the private domain. Local governments have the right to hold, possess and dispose of private domain property. Public domain property⁶ is not disposable and cannot be sold or leased, but the character of the property can be changed.

Local governments may acquire property by purchasing or exchanging it, by establishing enterprises (together with other legal entities on the basis of co-ownership) and through donation. Local governments may also acquire property through special mechanism such as eminent domain for local public purposes (expropriation) and the sequestration of a part of private property.⁷

⁴ “The classification of the local taxes is: registration tax, garbage cleaning, collection and treatment tax, hotel tax for foreigners, market stalls tax, municipality tax on receipts of restaurants, cafes, bar-buffets, discotheques, hotels, and confectioneries at a rate of 1% of the turnover; advertisement tax, public signboard tax, newcomers’ registration tax, amateur hunting and fishing permit tax, parking tax, luxury dog tax, building permit tax, butchering tax (slaughter).” F. Hodaj. Local Government in Albania. 2001, p.13.

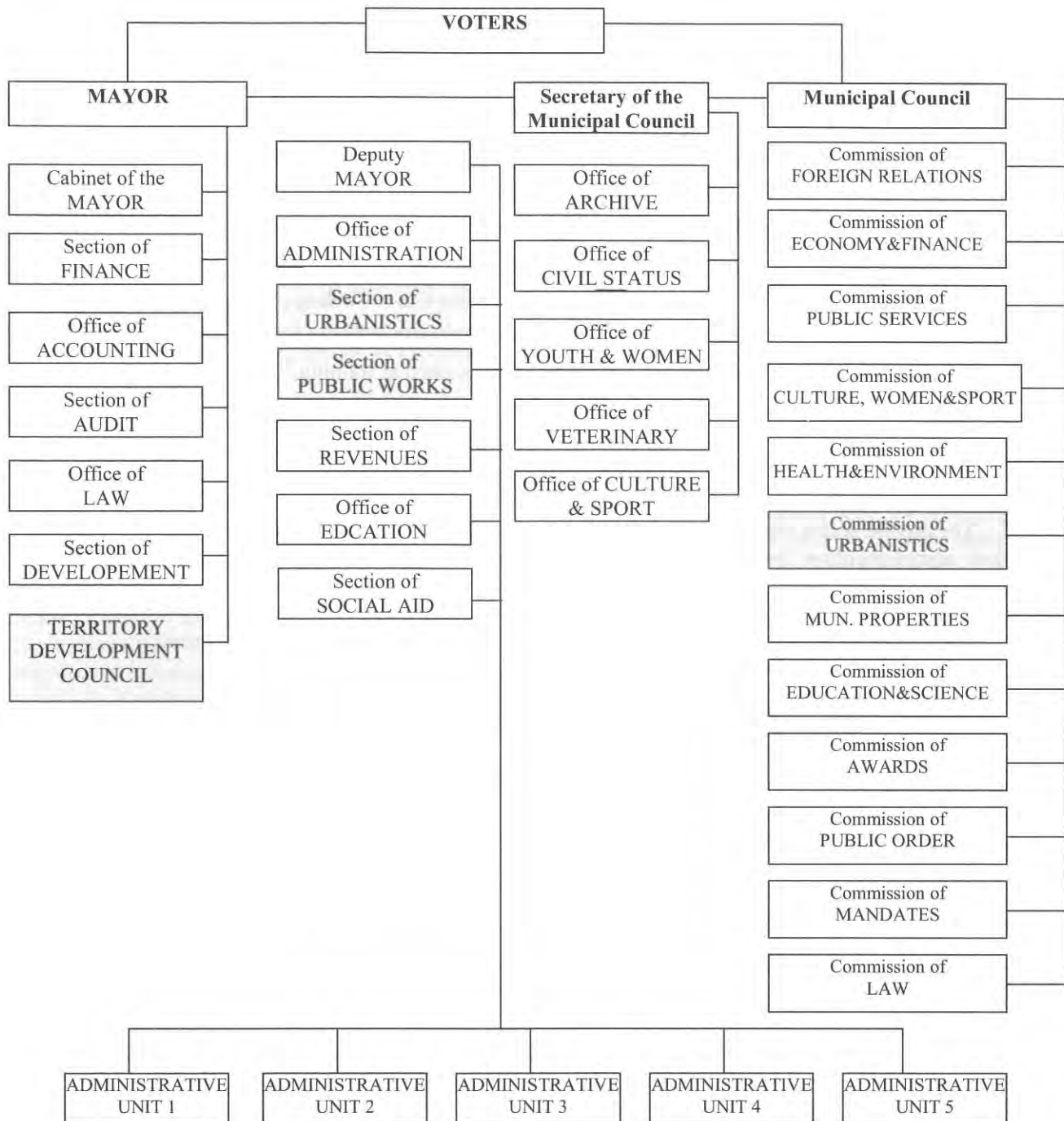
⁵ V. Beci. UNDP Report on the local governance program. 2001, p. 2.

⁶ Property in the public domain includes the coast, streets, rivers, torrents, administrative buildings, parks, monuments, historical squares, etc.

⁷ F. Hodaj. Local Government in Albania. Tirana. 2001, p. 12

Figure X. Structure of Shkodra Municipality

Shkodra is one of the 12 prefecture centres. This prefecture consists of three districts: Shkodra, Malesia e Madhe and Puka. Shkodra district consists of two municipalities and 15 communes. The city of Shkodra is the administrative, business and cultural centre of the district of Shkodra.



In accordance with its declared decentralization principles, the Government prepared a draft law on the transfer of immovable State public properties to local government. It means that State public properties in the settlements will be transferred to the local governments.

However, the local administrations still do not own the property because:

- The property inventory process is complex and requires proper methods and procedures;
- The types of property that will be given to the local authorities are not clearly defined;
- The transfer conditions are not clear;

- The property administration after transfer will require support, as the relevant legislation is outdated.

The Association of Albanian Municipalities (AAM) was established in 1993. It was originally called the National Association of Albanian Mayors and then the National Association of Albanian Municipalities. Its present name and statutes were adopted in September 2000. The supreme body of AAM is the general assembly, which convenes once a year. The mayor and the chairman of the council represent each municipality. At general assembly elects its chairman and a steering committee. The steering committee, which guides the Association's activity during the period between two general assemblies, nominates the AAM director, financial officer and general secretary.

The responsibilities/ tasks of AAM are to:

- Defend the common interests of municipalities;
- Establish direct relations with Parliament and the Government;
- Represent municipalities in relations with other bodies;
- Stimulate discussion on common problems with the aim of finding practical solutions;
- Facilitate the establishment of contacts between municipalities and their foreign partners;
- Carry out different services for the municipalities, such as training.⁸

C. Private sector and non-governmental organizations and associations

The private sector organizations and various other associations play a balancing role in the housing market, complementing the central and local governments. Interaction among them helps to build a healthy civil society.

The private commercial organizations that play a key role in the housing market are:

- Financial institutions providing mortgage and housing loans;
- Construction firms;
- Utility companies;
- Realtors and notaries.

The banking sector and the construction industry are described in chapters V and II respectively.

Utility companies

“Infrastructure bottlenecks continue to deter growth and poverty alleviation by lowering the marginal productivity of private capital and limiting access by the poor to market opportunities. In Albania, persistent disruptions of power and water also undermine Government credibility with the public.”

World Bank. Albania - Country Assistance Strategy – Progress Report. 2000, p. 8.

Since 2001 the *water and sewerage companies* have been managed by the municipal authorities, which coordinate these companies' operational policy. According to the Privatization Strategy, water-supply companies were privatized mainly through managing contracts or concessions⁹ and have been converted into joint-stock companies (for example, the Tirana Water Supply and Sewage Company).

The privatization of public utility services is a common trend in many countries, but should be studied carefully and, if introduced, planned and ruled very strictly to avoid faulty advice and unethical, not to say illegal, practices by private providers, as well as consulting firms and other institutions that

⁸ Republic of Albania. Albanian Association of Municipalities. “Strengthening the European Tendencies of Development in Local Self-Government in Southeastern Europe”. Fatos Hodaj.

⁹ The Ministry of Economic Cooperation and Trade. Business in Albania. Country Fact Sheets. 2000, p.10.

aggressively promote privatization.¹⁰ The accountability of private service operators needs careful attention.

Privatization of utility companies

"A review of current literature on the impacts of recent privatizations of water and sanitation services found that the vast majority of available case studies fail to demonstrate improvements in the quality and coverage of services to vulnerable groups. Indeed, higher costs to and service cut-offs of persons unable to pay higher rates have been more common, especially in developing and transition countries. This review also vindicates the concern that privatizations, while relatively easy to initiate, are extremely difficult to implement where universal coverage with acceptable quality at affordable prices for all is the stated goal of the service. Furthermore, when the population to be served includes low-income groups living in difficult-to-service areas and/or conditions, privatized service providers have generally been reluctant to invest in multiple forms of delivery or to apply cross-subsidies to meet the needs of these groups effectively."

"(...)Rates of return and healthy cash flows for making repayments may take a much higher priority in project design than will poverty alleviation, or improvement of health and living conditions."

United Nations, Economic and Social Council, Commission on Human Rights, Economic, Social and Cultural Rights - Report of the Special Rapporteur on adequate housing as a component of the right to an adequate standard of living, Mr. Miloon Kothari, E/CN.4/2002/59, 1 March 2002.

The situation at the Tirana Water Supply and Sewage Company can be extended to other companies in the country. The current transitional state of local governance in Albania has made it very difficult, if not impossible, for a peri-urban water supply enterprise to be effective. It lacks the authority to act to address problems, since it can neither turn to the Ministry of Public Works (now the Ministry of Territorial Development and Tourism) for leadership and power, nor depend on a contractual mandate from local government.¹¹ The water supply and sewerage companies suffer from a general lack of properly trained and motivated staff. Typical public-sector salaries in Albania are not sufficient to motivate staff to focus on their work and its timely completion. There is a lack of political will to enforce the responsibility of customers to pay bills and respect the rules of connection. Therefore, the water supply and sewerage companies are operating at a deficit; the tariffs¹² do not cover all expenditures (see table 17). The level of metering is very low, especially in residential buildings. For example, in Tirana 1,800 shops and businesses (51%) have meters, but only 440 individual customers (0.7%).

The Government made important legislative efforts in 1999 for the *power company*. The public electricity company KESH¹³ is undergoing operational and financial restructuring. It is to be divided into two companies, one that generates and transmits energy and the other that distributes it. The small local hydroelectric power plants will also be privatized.

In Albania *there are no central heating systems for housing* and, therefore, there are no central heating companies.

Statistics from 1999 show that electricity, gas and water supply companies constitute only 1.2% of the total number of enterprises active in the industrial sector. These enterprises are considered to be large and produce 23.5% of total production in this sector.

¹⁰ United Nations, Economic and Social Council, Commission on Human Rights, Economic, social and cultural rights - Report of the Special Rapporteur on adequate housing as a component of the right to an adequate standard of living, Mr. Miloon Kothari, E/CN.4/2002/59, 1 March 2002.

¹¹ PADCO. Urban Land Management Project. Background Studies: Strategic Plan for Greater Tirana. 2002, vol.1, p. 16.

¹² "The tariff provides a cross-subsidy of 4.4 times from private enterprises to households."-PADCO. Urban Land Management Project. Background Studies: Strategic Plan for Greater Tirana. 2002, vol.1, p. 18.

¹³ "KESH, the Albanian national electric power company, cannot deliver adequate services under current conditions. ...At present, it cannot generate those (investment) funds because of its pricing policy: KESH sells the power that it generates at below international market prices, while importing at market prices. As a result, the operations are not financially viable. Viability is further undermined by the lack of sufficient political will to disconnect or legalize unauthorized connections."- PADCO. Urban Land Management Project. Background Studies: Strategic Plan for Greater Tirana. 2002, vol.1, p. 17.

Table 17. Economic result by economic activity

Economic activity	Number of enterprises	Income	Expenditure	<i>in million leks</i>
				Profit or loss
Electricity, gas and water supply	49	15,604	16,941	-1337

Source: INSTAT. General results of annual structural survey of economic enterprises. Year 1999, p. 35.

Waste collection companies in Albania are private. The management of solid waste entails activities such as the collection, transport, processing and disposal of waste. For example, the Municipality of Tirana contracts two private operators (Austrian and Italian) for solid waste collection. These operators do not collect waste directly from households. The Municipality charges a solid waste management fee from businesses, but not from households, although they generate most waste. Revenue covers only a third of the service costs. This profit loss leads to insufficient and poor-quality services, especially for the housing sector.

Realtors, notaries and related professional services

A few real estate agencies have been established in Albania, the first in Tirana in 1991. Today, there are approximately ten full-time agencies in the capital, employing a total of 20-25 people, but only two or three can be considered to have a consolidated position on the market. There are reported to be three or four full-time agencies in other cities.

In Tirana, some 30-40 legal practices deal regularly with property transactions and conflicts. For the lawyers, the major difficulties are determining land use and ownership. Restrictions on foreign investments in real estate are also hindering the development of the real property market. The *Bar Association* regulates legal services, but those interviewed consider it to be ineffective.

There are now professionals specializing in the valuation of real estate, largely thanks to a course taught at the Polytechnic University of Tirana on valuation techniques. A ministerial order gives these graduates (who are also members of *Valuation Association*) a monopoly on real estate assessment in the country.¹⁴

Another important link with property transactions is the *institution of notaries*. In 1994 Parliament passed the Law on the Creation of Private, State-chartered Notaries, to prepare contracts for sales, leases, mortgages and other immovable property transactions. There are 75 notaries in Tirana and 140 in all of Albania, and the number is growing. Notaries in Albania follow the Austrian and similar legal systems. They are responsible for the full validity of every aspect of a contract which they prepare. The *Chamber of Notaries* has joined the Union of Latin Notaries. The Ministry of Justice, with the Chamber of Notaries, selects the notaries. There is no requirement for the subsequent monitoring of their activities. Notaries are independent agents, nominally under the supervision of the Ministry of Justice and the Chamber of Notaries. The Ministry can revoke their licences in case of misconduct (see also chap. IV).

Non-governmental organizations

In democratic societies, non-governmental organizations (NGOs) play an important role in defending the public interest. They are new actors not only in the housing services market, they are also new in the developing civil society.

During the transition many NGOs have been established mainly to deal with civil society issues: poverty, democracy, gender equity, environment. Few have been involved in improving illegal settlements or solving housing issues. As there are no policies to support their housing activities, they tend to develop their activities where donor agencies are more interested. The general attitude of the Government towards NGOs is to consider them as a private (non-profit) sector and there have been no

¹⁴ David Stanfield, Malcolm Childress, Artan Dervishi, and Lazar Korra. *Emerging Real Estate Markets in Metropolitan Tirana, Albania*, 2000, p.13 and 14.

attempts to work with them. Where there has been collaboration, it has been imposed by a foreign donor agency.¹⁵

Co-PLAN is a professional non-governmental and non-profit organization founded in 1997. It focuses its activities on supporting the collective welfare of people, especially those most in need. Its general aim is to strengthen civil society and democracy in urban issues. The main activities of the organization are:

- Research studies (analysis of social, economic and cultural problems, identification of strategies and suggestions for habitat development),
- Training courses and seminars (dissemination of information related to the problems of urban life),
- Practical support for communities, local and central authorities and others,
- Presenting community problems to the Government and the People's Assembly,
- The establishment of relations and the exchange of experience with similar Albanian and foreign organizations.

Co-PLAN has delivered technical assistance and equipment for development, consulting, training and public administration, as well as energy. It has worked through a series of projects in different neighbourhoods in Tirana while keeping the organization's focus on community-based neighbourhood improvements, as well as a more intensive approach to strengthening local government.

VIS - Volontario Internazionale per lo Sviluppo, an Italian NGO, was financed by the Netherlands NGO Cebemo (Cordaid) between 1995 and 1997, for the "Breglumasi" programme. Other local and foreign organizations were involved in this programme, too. It focused initially on social aspects, but later it was widened and finally inhabitants were encouraged to promote and create their own community-based organization (CBO), through the creation of women's, youth and children's groups.

CAFOD Albania, another NGO, successfully implemented a housing programme and has now undertaken infrastructure improvements, in collaboration with local authorities and CBOs. Two other NGOs, *OXFAM* and *PAPA*, undertook similar action.

NGOs and CBOs reach many low-income households. People are organized in their own CBOs. They are registered officially in court and recognized by the municipal authorities.¹⁶

NGOs and CBOs have undertaken and are undertaking actions that could not have been taken by the Government or local authorities. However, little information on NGOs and CBOs is available.

Owners' and tenants' organizations

As in other countries in transition, the privatization of Albania's publicly owned housing stock had the single aim of avoiding monopolies in the provision of housing and services. According to local experts, 98% of publicly owned houses were privatized within one or two years.¹⁷

Immediately after the completion of privatisation, in 1993, Parliament approved the Condominium Law. The Law laid down provisions on housing management by condominium associations in multi-storey blocks of flats for the assessment and collection of fees to pay for building maintenance and operation. The Condominium Law was developed by the Government Decree on the Procedure for the Creation of Condominiums and the Transfer of Privatized State Housing to Private Individuals and to Municipalities, which indicates the procedure for the foundation document and the organization, management and operation of homeowners' association. Unfortunately the procedure was not approved by the Ministry and the Law did not enter into force. The provisions of the Condominium Law were included in the Civil Code, but though the legal framework was in place, even if it needed some adjustments to Albanian reality, there is no single example of the establishment of a homeowners' association.

¹⁵ Doris Andoni, IHS and Lund University, *The Impact of Housing Policy on the Poor in Albania*. Rotterdam. 2000, p.38.

¹⁶ Besnik Aliaj. *NGOs/CBOs and Housing for Low-Income People in Albania*. Tirana. 2000, p. 71.

¹⁷ Doris Andoni, IHS and Lund University, *The Impact of Housing Policy on the Poor in Albania*. Rotterdam. 2000, p. 48.

According to a real estate agency, some informal homeowners' associations have been registered.

Some people do want to be organized in a homeowners' association and are ready to pay a fee for the association's administration. At present they themselves conclude the contracts with water and energy suppliers.

There are no housing cooperatives in Albania. Individuals build their flats in multi-storey blocks of flats signing a pre-contract and invest in the construction of the flat, paying the instalments stipulated in the pre-contract.

Following privatisation, the number of publicly owned flats is very low, so there is no real public rental market nor are there public housing tenants' associations. Private housing tenants' associations, however, do exist.

Professional organizations

The Albanian Association of Civil Engineers (AACE)

The initiative for establishing AACE was first taken in 1994, but at that time the organization failed. AACE is a member of the International Federation of Consulting Engineers (FIDIC) and has 185 members.

The consulting engineers in private firms and those working independently are protected by the Constitution and legislation, but this is something that has to be acknowledged and respected by the representatives of the State. The Association's main goals are to:

- Fight with all democratic and legal instruments for engineers to be considered as important partners for the State;
- Ensure fair competition in tenders between local and international consultants. The abuses that result from unfair competition based on the profit purposes of the State as a client or private clients frequently involve "phantom" consultants or engineers. AACE wishes to play the role of an honest and independent broker;
- Fight for an increase in the rates of pay for consulting engineers and for a change in the legislation that establishes very low rates;
- Try to be involved in the approval of licences for civil engineers, and to ensure that the issuing of licences should not be a matter for the public sector alone;
- Initiate the drafting and support the approval of a law on intellectual property rights in engineering, which are misused by foreigners and often also by the Government;
- Recommend consultants as experts to the Government;
- Urge private firms and engineers to work with the State and become regular taxpayers;
- Work with other associations to promote and stimulate studies and research.

The Albanian Association of Builders

The Association was established in October 2001 and is currently developing its organizational structure, recruiting members and setting up branches in major cities. The Association intends to establish institutionalized and collaborative relations with the Ministry of Territorial Development and Tourism. Cooperation with the Ministry of Finance, the Ministry of Social Affairs and Labour, the State Tax Department and the Municipality of Tirana is also planned. The objectives of this Association are twofold:

- (i) Legislation:
 - Legislative initiatives on the procurement of services, Urban Law, taxation law, etc;
 - Introducing amendments to existing acts, in particular the Urban Law and the Law on Public Procurement;
 - Establishing a minimum cost of construction and a minimum sales price for taxation purposes;

- (ii) Institutionalized involvement in existing public structures, in particular:
- Membership of the Council for Territorial Development;
 - Representation on the National Council of Labour and the Tax Appeal Commission.

The Albanian Association of Architects

Despite the considerable amount of construction currently taking place, architectural services are reported to be depressed. There are private architectural offices, but most trained architects (formerly State employees) have now left the profession and neglected their professional association.

Nevertheless, the Association intends to support the development of architecture and its contribution to the public's well-being and to establish the position and role of architects in the housing sector. In this regard the main objectives of the association are:

- (i) Networking
- To unite on a democratic voluntary basis Albanian architects and urban planners and to strengthen friendship, intellectual, artistic, scientific and professional links between all architects and other professionals in areas related to their activity;
 - To support collaboration between architects and other disciplines related with construction and planning, bearing in mind the important role of architects and their obligations towards other parties;
 - To establish links between other professional organizations within and outside the country that are related to architecture;
- (ii) Training
- To support contemporary trends in the development of space, material and architectural forms;
 - To ensure continuity in the cultural and social role of architects which should be acknowledged by the public authorities;
 - To assist in establishing the necessary conditions for training for and exercising the profession;
 - To encourage the continuing education of architects, to facilitate the sharing of experience within and outside the country and to organize symposiums of architects and meetings with researchers;
- (iii) Professional standards
- To increase the confidence in architects and their competence, asking the members of the Association to uphold high moral and professional standards.

Chapter IV

LEGAL FRAMEWORK

Though the development of adequate housing legislation is a very important task for transition from a centrally planned to a market economy, it presupposes the introduction of other necessary economic reforms. Such reforms include the establishment of an efficient banking system, the privatization of former State enterprises, agricultural land reform, the reform of the judicial system, a new definition for the State's social policy, etc. The key legal documents in the sphere of housing are as follows:

- (a) The basic constitutional rights of citizens to own and inherit land and buildings, freedom of contract and the right to privacy;
- (b) The division of power and competence between central, regional and local levels and an independent judiciary linked with the individual right of recourse to the courts;
- (c) Legislation on the privatization of public housing and housing restitution;
- (d) Legislation on housing subsidies;
- (e) Legislation on financing and mortgages for housing;
- (f) Legislation on urban planning, landownership and transfers;
- (g) Legislation on real estate registration.

The above list of key housing legislation reflects also the structure of this chapter. The first section discusses the basic constitutional rights relating to the housing market and the decentralization of housing policy. This will be followed by the description of privatization and restitution legislation, legislation on housing subsidies and a brief overview of the legislation on housing finance and mortgages. The final section will deal with real estate registration, urban planning legislation and legislative solutions for informal and illegal housing development in Albania.

Figure XI. Laws and Governmental Decrees related to housing policy

Laws:

Constitution (1998)
Law No. 7491/1991 on the Main Constitutional Provisions
Civil Code Law No. 7572/1992 on the Organization and Functioning of Local Government
Law No. 8652/2000 on the Organization and Functioning of Local Government (Basic Law)
Law No. 7776/1993 on the Local Government Budget
Law No. 7980/1995 on the Purchase and Sale of Land for Construction (amended by Law No. 8260/1997)
Law No. 8651/1999 on the Expropriation and Temporary Seizure of Private Property in the Public Interest
Law No. 7652/1992 on the Privatization of State Housing
Law No. 7683/1993 on Condominiums
Law No. 7698/1993 on the Restitution of Property and the Compensation for Former Property Owners (amended by Law No. 8084/1996)
Law No. 7582/1992 on State Enterprises
Law No. 8408/1998 on Construction Police
Law No. 8405/1998 on Urban Planning
Law No. 7843/1994 on the Registration of Immovable Property (amended by Law No. 8090/1996)
Law No. 7501/1991 on Land (amended by Law No. 7983/1995)
Law No. 8030/1995 on State Support for Homeless Families
Law No. 8647/2000 Amending Law No. 8030/1995 on State Support for Homeless Families
Law No. 7805/1994 on Property Tax
Law No. 8743/2001 on State Immovable Property
Law No. 8744/2001 on the Transfer of State Immovable Property to Local Government
Draft housing law
Draft law on urban planning

Government Decrees:

Decree No. 204/1998 on the Competencies and Financing of Local Government
 Decree No. 431/1992 on the Establishment of the National Housing Agency
 Decree No. 198/1993 on the Establishment of the National Housing Agency
 Decree No. 40/2001 Amending Decree No. 198/1993
 Decree No. 49/1993 on Establishing Criteria for Homeless Families
 Decree No. 301/1993 on the Application of Law No. 7698/1993
 Decree No. 138/2001 Amending Decree No. 301/1993
 Decree No. 250/1996 on the Application of Law No. 8030/1995
 Decree No. 153/2001 on the Application of Law No. 8030/1995 amended by Law No. 8647/2000
 Decree No. 305/1992 on the Rent for Public Land for Construction Decree No. 46/1993 on the Completion of Unfinished Buildings

A. Constitutional framework and proprietary rights

The Law on the Main Constitutional Provisions, better known as the Interim Constitution, was enacted by Parliament on 29 April 1991 and amended after a referendum on 21 October 1998. It affirms that Albania, as a parliamentary republic, is a secular and democratic State based on the rule of law. Its articles stress the respect of individual human rights, equality before the law, principles of social justice and social protection. The system of government is based on the separation and balancing of legislative, executive and judicial powers. The Law also affirms political pluralism and an economic system based on private and public property as well as on a market economy and freedom of economic activity.

The independent Constitutional Court was established to guarantee respect for the Constitution and provide its final interpretation. The President, with the consent of Parliament, appoints the members of the Court for nine years, one third of the Court being renewed every three years. According to article 81 of the Constitution, the Council of Ministers, deputies and 20,000 electors have the right to propose laws. A draft law is voted on three times: in principle, article by article, and in its entirety. The President has the right to return a law for review only once. The presidential veto on the review of a law is void when a majority of all the members of Parliament vote against it.

Private and public properties enjoy equal protection by law. The right to own property is included in the section on personal rights and freedoms, especially in article 41 of the Constitution. Expropriation or equivalent limitations on property rights are permitted only with fair compensation. The reasons for expropriation are explicitly mentioned in article 8 of the Law on Expropriation and consist of the performance of State obligations deriving from international conventions and treaties; the implementation of projects extending over national or local territory or transport, energy, telecommunications projects in the public interest; the implementation of national defence programmes; for the purpose of protecting immovable property of an archaeological, historical, cultural and scientific character when public interest, by the nature of these objects, cannot be ensured by a private owner and in cases where immovable property creates a permanent risk to public health and security.

Property rights are defined and governed by the Civil Code in accordance with article 41 of the Constitution. Property can be acquired by contract, gift, inheritance and statute of limitations (after continuous possession for 10 years in the case of immovable property). Article 153 of the Civil Code states that nobody can be deprived fully or partly of the ownership of his/her property except when it is required for legal public needs and always with full and prior compensation.

Immovable property is defined in article 142 of the Civil Code as land, water sources, trees, buildings and any object which is permanently and continuously attached to the land or buildings. According to article 83, all immovable property and real estate rights must be registered in the Immovable Property Registries and their transfer to be valid must be done by a registered notarized act. The owners must obey the rules defined in the territorial regulation plans. The buildings on or beneath the surface of the land belong to the owner of the land but when, in good faith, a building has been built on the land of

someone else and its value is higher than the value of the land, the person who has built the building can be recognized as the owner of the land by decision of the relevant court. This procedure is closely related to the first registration of immovable property and the restitution of expropriated land. In fact, the separate ownership of buildings and land is not allowed and mortgages can be used only when both are in the ownership of the same physical or legal person.

B. Decentralization of competence from central to local government

Before the introduction of the Law on the Organization and Functioning of Local Government, called the Basic Law, the powers of local government especially in housing were very limited. However, the Constitution already introduced the principles of local autonomy, decentralization of power and a two-tier structure for local government (art. 108): regions and municipalities/communes. According to the Constitution, communes and municipalities are the basic units of local government and exercise all the duties of self-government through representative organs and local referendums.

The first legal documents on local government organization following the approval of the Constitution were the Law Amending the Law on the Main Constitutional Provisions (No. 7570/1992) and the Law on the Organization and Functioning of Local Government. In July 1992, the first local democratic elections took place and the first local authorities were established. However, local government competence was set very generally and there was no system of local financing. Following the promulgation of the new Constitution (1998), ratification by Parliament of the European Charter of Local Self-Government (1999) and approval of the National Decentralization Strategy by the Council of Ministers, the Law on the Organization and Functioning of Local Government (the Basic Law) was approved.

The Basic Law provided local governments with full authority to exercise exclusive functions and gave them rights of governance, fiscal autonomy, property and other rights of legal persons set forth in the Civil Code (to enter into contracts, keep accounts, etc.). Since January 2001 local government has been fully responsible (exclusive functions), among other matters, for water supply, sewerage and drainage systems, the construction and maintenance of local roads, pavements, urban planning, land management and housing as described in the Law. However, there is no further legislative specification of local government competence or responsibilities in land management or housing, and at the time of writing the role of local government was still limited to providing for households on the waiting lists established by the central Government. Building inspection was still in the hands of the central Construction Police, "social" housing construction in the hands of the central National Housing Agency, and the competence of local authorities in urban planning was limited by the Law on Urban Planning.

According to the Basic Law, local government may purchase, sell or rent its movable and immovable property, but no important public property has been transferred to their ownership so far. On 22 February 2001 Parliament passed the Law on State Immovable Property and the Law on the Transfer of State Immovable Property to Local Government according to which what used to be State property should be transferred to the ownership of local authorities in the future. An inventory of public property is under way now. Because almost all former State housing was privatized or returned to its original owners, the transfer will concern mainly property in the "public domain" (streets, public buildings, parks) and limited areas of State land that will remain after all restitution and compensation claims are settled.

Since January 2002 local governments have been authorized to borrow funds for investment as well as receive unconditional and conditional financial transfers from the State budget, but these transfers do not include funding for "social" housing construction (these are allocated exclusively to the National Housing Agency, controlled by the central Government). Funds have been redistributed among local governments ad hoc according to a formula accepted by the Council of Ministers and no special legislation on local fiscal revenues (or amendments of current tax laws defining the legal right to a certain portion of the central tax collection) has been passed to stabilize the financial transfers to local government budgets in the future. So fixing a proportion of income from central tax collection for

redistribution to local public budgets as well as the system for such redistribution are still wholly in the hands of the central Government.

Local authorities have the right to establish and collect a whole range of local taxes and fees (property tax, land tax, tax on tourist hotels, tax on advertising, cleaning tax, etc.), but collection rates are not very high. In some cases (land tax) the municipalities add the taxes to the electricity or water bills to increase the rate of tax collection and service providers transfer the taxes to the municipalities later on. This has proved a very good practice because landowners do not want to risk losing power or water services. Though local authorities have the right to collect property taxes (often the main source of income of local government in many developed countries), they apply the property tax only to commercial buildings and only exceptionally to residential buildings. Many residential properties have not yet been registered and the taxes can hardly be introduced before registration is complete (the introduction of property taxation on housing could also lead to a further postponement of registration due to the lower motivation of owner). Neither the Basic Law nor other legislation regulates the ways and limits of local authority borrowing to prevent the incorrect economic behaviour of local government representatives.

The Basic Law and subsequent acts transferred the housing policy initiative to the local level and opened the possibilities of establishing both municipal and/or public-private housing for lower-income households (social housing) in the future. However, the decentralization of appropriate legislation is currently only half way to the stated goals.

C. Legislation on privatization of public housing and housing restitution

Until the introduction of the Basic Law, housing policy in Albania was centrally controlled with the Government responsible for the restitution of expropriated housing, the privatization of former State rental housing into the ownership of the occupants and limited housing construction and subsidy programmes.

The Law on the Privatization of State Housing introduced housing privatization and Albania became the most rapid privatizer of all Central and East European countries with 98% of public housing being privatized within one year. Though privatization was based on a voluntary "right-to-buy" policy, various incentives were used to promote the transfer of ownership such as very low purchase prices, future unconditional proprietary rights of house owners (including exemption from rent control if renting out a flat) and the deadline of occupants' right to buy set at 31 December 1993. The immediate cash payment of dwelling prices was promoted by a discount of 20% of their initial value (the immediate payment of 50% of the price with a 10% reduction) and some public dwellings (dwellings built before 1965 and small dwellings built before 1970) were transferred free of charge. Families of former political prisoners, victims of political persecution and disabled veterans of the Second World War had the right to the free transfer of their dwellings too (see chap. I). The prices of other dwellings were set by By-law No. 1 on State Housing Privatization; the prices varied in relation to the size, age, location and quality of the dwelling and family structure. For example, within category I (best quality and location), the price of a dwelling in a 40-year-old building ranged from 2,000 to 10,000 leks (US\$ 14 – 70 according to the current exchange rate); in a 5-year-old building the range was 16,000 to 40,000 leks (US\$ 114 – 285)¹; the prices were thus very low. The income from privatization was used for further housing construction by the National Housing Agency.

If a family occupied a flat with more than one extra room according to the valid norms it was excluded from the right to privatize the flat it occupied but articles 12 and 13 of the Law provided the motivation and support for it to move into an appropriate dwelling. Furthermore, people who started to build their own private housing after January 1990, emigrants (Amendment No. 7672/1993) and villagers benefiting from the Law on Land were also excluded from the right to buy. The land occupied by a privatized dwelling including a one-metre-wide strip of land around it was also transferred to the co-ownership of new owners on the privatization of residential buildings. The prices for different categories

¹ Staff Appraisal Report, World Bank, June 9, 1993.

of urban land were fixed, averaging about 100 leks/m² (\$0.7 /m²); about 20 leks/m² (\$0.14 /m²) of floor space. The subsequent Government Decree No. 46/1993 dealt with the completion and privatization of dwellings started under the former regime but never completed. Only dwellings that were very nearly complete were completed using funds from the State budget or the National Housing Agency and privatized at a 20% premium on the privatization price.

The condominium legislation

The 1993 Law on Condominiums (prepared with the technical assistance of the United States Agency for International Development) provided the legal base for the full ownership of individual dwellings and the co-ownership of common areas and land. It also declared the main principles of condominium management and the collection of owners' maintenance contributions; the subsequent Government Decree introduced the obligation to register a foundation deed for each condominium at the real property registration office (*Ipoteka*). According to this Law, the amended Charter of the National Housing Agency and several government decrees, the NHA district branches were responsible for the registration of condominiums as well as for the registration of individual units in all privatized buildings. However, due to the objections of the Ministry of Justice and the poor track record of NHA in this field, no condominiums have been established or registered so far. The failure in the establishment of condominiums was caused also by the fact that dwellings were privatized before condominium legislation was approved.

A reduced version of the Law on Condominiums was later included in the Civil Code and the obligations and rights of residential building co-owners are now regulated by articles 209 to 221 of the Civil Code. Article 201 of the Code, which deals with co-ownership issues in general, had already set the duty of each co-owner to pay maintenance costs for the protection and enjoyment of the co-owned object at a rate reflecting his/her ownership share. This is further confirmed by article 217 including additional obligations for co-owners (prohibition of construction changes that could endanger the stability of the co-owned building or affect the outside view of the building). The Law explicitly states the obligatory subjects of co-ownership when there is separate ownership of housing units in one building: these are land, common areas, stairs, foundations, roof, hall, etc. The competencies and procedural rules of the assembly of co-owners are set out in articles 212 to 216. The assembly must meet at least once a year and can make decisions only if the owners of at least two thirds of the total property shares are present. The Assembly decides by a simple majority of votes on the calculation of maintenance and repair expenses and by a majority of co-owners possessing at least 75% of the shares on major improvements or renovations. The decision taken by the assembly is binding on all co-owners if no appeal to a court is lodged within 30 days from the date of decision. However, in practice few of these rules are applied and the co-owners often fail to pay any maintenance contributions for common building areas. The result is that residential buildings are deteriorating very quickly.

Restitution of property

Unoccupied land (with restrictions concerning size) and unaltered buildings that had been nationalized, expropriated or confiscated by legal or sub-legal acts and court decisions after 1945 were directly returned to their former owners or their descendants by the Law on the Restitution of Property and the Compensation for Former Property Owners. If between the date of expropriation and the date that the Law came into force the value of buildings had appreciated by further developments by more than 50% of the original value, only co-ownership was allowed. As for permanent buildings on land that should have been returned, the former owners have the right to compensation in the form of either State bonds or an equivalent unoccupied plot near urban areas or tourist zones.

The deadline for submitting restitution claims was set at 31 August 1994 but it was further postponed by additional restitution of property expropriated before 1945; the claims have not yet been reviewed, though the final deadline of November 2001 has already passed. The Property Restitution and Compensation for Former Owners Committee (Restitution Committee) was created to consider other restitution claims. The competence of the Restitution Committee was set in Decree No. 301/1993, according to which its main responsibilities include controlling the activity of the Property Restitution and Compensation to Former Owners Commissions established at district/municipal levels (Restitution Commissions) and improving legislation in this domain of State activity. The Committee is answerable to the Council of Ministers.

In 1993, 37 Restitution Commissions were set up at district level and 64 at municipal level. These Commissions had the main executive power in the confirmation of property rights, the examination of necessary documentation or the approval of the list of experts evaluating the potential changes made during the previous regime to returned objects. Decree No. 301/1993 explicitly stated the number and functions of commission members: the secretary of the district/municipal council was appointed as the chairman by the Law. The Commissions processed 75% of claims to property in rural and urban areas.

The Restitution Commissions were not allowed to compensate former owners with other plots before the methodology for compensation was created and approved at the central level. However, the Commissions started the process of compensation illegally and due to their very independent status, no authority could prevent them from doing so (with the exception of the court). The last Decree (No. 138/2001) strengthened the power of the central Government and reorganized the Restitution Commissions into 12 Commissions operating in each region in the country. Each Restitution Commission is composed of five members (chairman, vice-chairman, two experts and an assistant). The chairman and the vice-chairman are nominated by the prefect and approved by the central Restitution Committee. Other members are appointed by the chairman of the Restitution Commission with the approval of the prefect in each region. According to the Restitution Committee, 2,147 objects had been returned by 2002.

As a result of the restitution of urban land, the illegal compensation of former owners and the distribution of State agricultural land among former agricultural cooperative members and other villagers (based on the Law on Land), public land now constitutes only an estimated 10% of total land in Albania.

Many residential buildings with tenants were also returned to their former owners and rents applicable to these dwellings had already been set in the Law on the Privatization of State Housing. Rents should have been fixed by the Government every six months or one year and should have been completely liberalized in December 1995 (art. 19). This article was amended by the Law on State Support for Homeless Families, which in its article 10 sets the rents for returned houses at 5% of average construction costs calculated by the National Housing Agency. Under the pressure of the Private Housing Tenants' Association, which appealed to the Constitutional Court about this Law, the Government prepared more advantageous conditions for these tenants involving the distribution of State housing subsidies (Decree No. 250/1996) and the Constitutional Court annulled articles 10 and 11 of the Law dealing with rents.

Due to these developments in rent deregulation, the rents for tenants of returned private dwellings have not changed since 1993 and are almost on the same level as they were during the former communist regime. The rents for current dwelling leases (mostly in returned dwellings) remain controlled by the State at a level that is not high enough to cover even basic maintenance costs and private landlords must wait for a rent increase until their tenants receive a dwelling from the NHA and/or get a State grant combined with a qualified loan for the purchase of their own dwellings (as promised by the Government).

The rights and obligations of the new rental contract are set only very generally in the Civil Code in articles 801 to 825. According to article 801, the subject of a lease for a given period of time at a fixed rent can be both movable and immovable objects. The lessor shall maintain the object in good condition, make all necessary repairs during the lease (with the exception of minor maintenance) and assure the peaceful enjoyment of the object during the period of lease. The lessee is responsible for ensuring that the object is used for the purpose specified in the contract and for paying the rent at an agreed time. Article 803 states that the housing lease cannot be concluded for a period exceeding five years. Rents are completely liberalized for new dwelling leases.

It is however striking that the Civil Code does not regulate the conditions of premature termination of rental contract, the rights of tenants in particular situations (pressure of landlords, right to adequate housing in the case of premature termination of contract), the rights of landlords in the case of a housing shortage, sanctions for the non-payment of rent and many other issues connected with the protection of both tenants' and landlords' rights.

The World Bank argued that the privatization of the public housing stock should have brought an improvement in housing maintenance, the transfer of this responsibility to private hands, a higher use of

the housing stock through an easier movement of owners and lessees, and the creation of an open real-estate market. However, the transfer of responsibility and the improvement of housing maintenance were not fully achieved. This is mainly because the new homeowners cannot afford to pay for the upkeep of their homes.

D. Legislation on housing subsidies

The National Housing Agency

Based on Decree No. 431/1992 as amended by Decree No. 198/1993, NHA was founded as a legal person and a State enterprise, in accordance with the Law on State Enterprises (No. 7582/1992).

NHA played an active role in the privatization of public housing. The Agency was responsible for the pre-calculations of privatization prices, the preparation of transfer agreements, the actual transfers, the collection of the income from the privatization and the establishment of condominiums in former State-owned residential houses. The activity of the Agency has, however, been important mainly in the completion of unfinished flats and new "social" housing construction. Based on Decree No. 198/1993, NHA carries out feasibility studies, prepares housing construction plans, purchases land for construction (only public land), tenders the housing construction projects, supervises their implementation and finally sells the dwellings at cost price, while offering loans at below-market interest rates to future homeowners. Since 2001 NHA has obtained the right to purchase dwellings on the open market (Decree No. 153/2001) as well as to purchase land for housing construction for private ownership (Decree No. 40/2001).

Some dwellings constructed by NHA were forcefully occupied by households that had not been selected and NHA did not succeed in preventing this. Moreover, NHA, though not obliged to do so by law, has not taken any efficient action against speculation with allocated dwellings when beneficiary households sold their dwellings at market prices even before the preferential loan was repaid. The system, which is based on mortgage and not on leasing financing, does not allow for proper management control, and has led to illegal transactions with NHA flats. Moreover, very few condominiums (homeowners' associations) were established in new residential buildings and this resulted in a quick physical deterioration of the houses. Decree No. 40/2001 therefore imposed the duty on the NHA to establish condominiums in constructed residential buildings and gave full property rights to the NHA till all financial obligations (loans) are settled by the beneficiary household.

The particular status of the Agency, being partially private and public, and acting as both a financial and a developer enterprise, has not proved to be the best solution. Giving it the status of an independent intermediary between banks and private developers with clearly defined rules of activity when using public funds may be one way of making the Agency more efficient and effective in the future.

A current problem is that the Law on State Support for Homeless Families is very politicized in terms of who is going to benefit from the subsidies. It does not take into consideration the financial status of the families. Without a points system, it is difficult to set priorities within one selected category (an example of a transparent point system can be found in Romania). Also, the Law does not advocate decentralization. Affordability for the middle and lower classes, not to mention the really homeless, has been avoided so far, particularly in the cities.

E. Legislation on financing and mortgages for housing

The legislation on mortgages is included in the Civil Code and further developed by the Law on Collateral. The mortgage is defined as in other countries as a conditional right for the transfer of the property of a debtor or a third party to the benefit of the creditor to secure the fulfilment of an obligation. The Civil Code distinguishes three types of mortgages: contract, legal and judicial. The judicial form is based on the registration of a mortgage on the property of the debtor made by a court decision (registration is valid for 20 years). Article 567 of the Code allows for mortgages on future property to be concluded only when the property comes into existence. All mortgages on immovable property must be

registered. Though the basic legislation on mortgages seems sufficient, there is no supplementary legislation on State support (interest subsidies, tax relief for interest payments) and on tradable mortgage bonds. For further details on mortgaging, see chapter V.

The lack of long-term mortgage financing has surely contributed to the high level of informal and illegal housing construction. On the other hand, no commercial bank would be willing to issue long-term credit without the guarantee of police and judicial powers to ensure the effective repayment of loans (including enforcing foreclosure and eviction orders against mortgage defaulters) even in cases where mortgage legislation is very carefully prepared and implemented.

F. Legislation on urban planning, landownership and transfers and real estate registration

Landownership rights are included in the Interim Constitution and specified in the Civil Code (mainly concerning agricultural land). The Law on the Purchase and Sale of Land for Construction specifies the conditions for the purchase of land inside and outside the boundaries of cities/municipalities which, at the time of the transaction, is or will be used for construction and does not have the status of agricultural land. According to the Law, Albanian natural persons and legal entities are entitled to buy and sell land for construction from and to each other without any limitations, while foreign legal entities and natural persons are entitled to purchase State-owned or privately owned land for construction only in connection with foreign investments (Law on Foreign Investments No. 7764/1993) and in places where investments are being or have been made. Moreover, foreign investors can purchase land for construction only if they have made investments of no less than three times the value of land (they need to pay rent for the until they do). In addition, if a foreign person buys a building which is worth at least three times more than the occupied land, he obtains the right to purchase the land. Foreign persons are not allowed to buy land of archaeological value or in national parks, and sites that are of special environmental or military importance.

The sales price for State-owned land is set by the Government, while the sales price for privately owned land should be agreed freely by the contracting parties. By Decree No. 305/1992, the Government specifies the rents for State-owned land. The rent level depends on the land's fertility, its location, the purpose of use and the renting period. The State can sell/transfer unoccupied land to private owners according to Law No. 7980/1995 only for the construction of housing by the National Housing Agency or by others if the housing is intended for "homeless" households and households living in houses that have been returned to their former owners, or for very important national investments following a government decision.

The Law on Land, passed at the beginning of the transition and updated in 1995, distributed agricultural land among the members of former agricultural cooperatives according to the size and location defined by the Land Commission in every community (their rights and duties were defined by the Council of Ministers) in line with the shares they owned in the cooperatives. Cadastral offices should have been created for the registration of agricultural land distribution. Further housing subsidy legislation excluded households benefiting from the Law on Land from later housing subsidy programmes. Agricultural land was transferred to private ownership without charge, while land for construction was transferred with or without charge according to the criteria set by the government. The distributed land had to be used only for the purposes stated in the Law. The Law provided a basic list of penalties for inappropriate use of land and confirmed the State's obligation to compensate any expropriation of land with another plot of land or payment of an appropriate sum. The Restitution Law approved later did not include the land covered by the Law on Land, but only land for construction located within the boundaries of urban areas.

Registration of immovable properties

While land for agricultural purposes had to be registered in the Cadastral Offices, urban land and other immovable property had to be registered in *Ipoteka* Offices, which were reopened in 1993 after being abolished at the beginning of the 1980s (the result of the constitutional provision passed in 1976). Since 1995 all immovable properties in both agricultural and urban areas have to be registered in the Immoveable Property Registries (IPR) created by the Law on the Registration of Immoveable Property.

All the documentation from the Cadastral and *Ipoteka* Offices was transferred to these new registries. This Law was the outcome of the Government's Action Plan for Immovable Property Registration and Other Land Market Activities adopted in 1993. Shortly after the adoption of the Law on Registration, Parliament passed the new Civil Code containing provisions for the transfer of rights to immovable property, including the obligation to register every subsequent transaction involving property rights at the Immovable Property Registries.

The Registries were established in the administrative centre of each zone set up by the Council of Ministers. The Chief Registrar is appointed by the Government and controls the registration process throughout the country. For each registration zone he appoints a registrar, who issues certificates of ownership or lease, manages the register and has the right to fine any person for submitting incorrect information. According to article 11 of the Law, any document affecting rights to immovable properties shall be presented for registration within 30 days from the time that it came into force. The registrar is also responsible for maintaining the registry index map showing the boundaries and geographic locations of immovable property. On first registration, the ownership and boundaries shall be considered in accordance with Law No. 7501/1991, sales contracts concluded under Law No. 7652/1992 and decisions of the Restitution Commissions under Law No. 7698/1993.

For those who possess property in conformity with the law but do not possess an ownership document, application for registration should contain a notarized personal declaration of ownership and a notarized declaration by neighbours on the accuracy of the stated boundaries. Publication of the first provisional registration should be made at the relevant place for public examination for a period of 90 days. Registrars are obliged to correct any errors and resolve any disputes arising from conflicting claims at first registration.

The first registration is free of charge, but any further registration (transfer of ownership) requires payment of a fee representing 0.5% of the property's value (agreed price) for values up to 200,000 leks and 1% of the property's value when it is higher than 200,000 leks. Due to this progressive rating of registration fees, sales agreements often stipulate prices below the ones really paid. Certificates of ownership, lease, mortgage, etc. can be issued by the Immovable Property Register only at the request of the owner or his/her proxy.

According to the Civil Code, immovable property lease contracts for a period longer than five years must also be registered at the Immovable Property Registry, but Law No. 7843/1994 shortened this period to one year. However, information from the Registry in Tirana indicates that only about 2% of long-lease contracts are registered despite the legal obligation to do so. The unclear decisions of Restitution Commissions, the rapid privatization process and the lack of necessary documents, often lost during the former regime, mean that first property registration can take years and only about half of all immovable property had been registered at the time of writing. The reliability of registrations is questioned by some foreign investors. The trade in unregistered immovable properties (including NHA dwellings with non-repaid loans) is very probably quite common due to a lack of trust in the Registries, the high registration fees and the fear that local authorities may start to collect a property tax on housing.

In 1994 Parliament also approved a law on the establishment of private, State-chartered notaries (Law on Notaries) to prepare contracts relating to immovable properties. As mentioned earlier, notaries are responsible for the full validity of any contract which they prepare and the Chamber of Notaries appears to be an active association supervising and regulating the activities of its members. The selection of notaries is made by the Ministry of Justice in collaboration with the Chamber of Notaries, and the Ministry can revoke the licences of notaries in cases of misconduct. The notarization of contract documents and the creation of the Immovable Property Registries are important legislative steps towards the efficient functioning of a real estate market in Albania. However, other incentives for registration, such as better and quicker action by the courts, more reliable Registries as well as an increase in fees, are needed to finalize the first registration process and to stabilize current property relations. Building savings schemes or more affordable mortgage schemes conditioned by registration could also help.

Urban planning

Albania is currently facing a high level of informal and illegal housing development due to the large flow of rural inhabitants to urban areas (see also chapters I and II). Local authorities and several NGOs are currently trying to regularize a chaotic urbanization process and legalize selected informal settlements. The Law on Urban Planning defining the competencies of State and local governments in urban planning set up Albania's Council for Territorial Development as the top decision-making organ run by the Council of Ministers (the prime minister heads the Council). This organ approves regional planning studies, the master plans for areas larger than 10 hectares or for tourist zone development, the general urban plans of cities with a population of over 10,000 inhabitants, urban studies on city centres for cities with a population of over 50,000 inhabitants and building permits for important buildings in city centres.

The Law also establishes territorial development councils and urban planning sections in city councils in the biggest cities, and urban planning offices in other municipalities/communes. The Law lists explicitly and in detail the members of territorial development councils, their voting procedures and powers including the approval of master plans and general urban plans for cities and communes. The urban planning office of each municipality prepares the terms of reference for city urban planning and the urban plans that need to be approved by the authorised territorial development councils. Regional and master plans should be prepared, and approved, for a period of over 20 years, general development plans and partial urban planning studies cover a period of 10 to 15 years. The approval of construction projects by territorial development councils is obligatory for all natural persons and legal entities that wish to construct a structure above or below ground level regardless of landownership. Before a permit is issued, the project is examined by the urban planning offices of municipalities/communes, the urban planning section of the district council and the respective territorial development council, which must make a decision within two months of the date of the submission for approval being sent to it. Before submitting the application, the applicant must pay a fee of 1% of the investment value deposited on behalf of the urban planning studies and another fee for the use of the existing service installations (e.g. 5% of the investment value if the building is to be built within the city borders).

Due to the wide competence of Albania's Council for Territorial Development and the intermediary position of the local territorial development councils, the urban and regional planning system does not comply with the Basic Law, which places urban planning competence among the exclusive functions of local government. Amendment of the Law is currently being discussed. According to the draft proposal of PADCO Co., the role of the national Council should be limited to the approval of interregional urban plans, regional urban plans and urban plans for zones of national importance (tourist zones, strategic zones, airports). All local authorities (municipalities/communes) should have the exclusive right to prepare general urban plans and master plans and to issue building permits. Master plans should be approved by the regions. Though this is common in other developed countries it is very important to provide local authorities with the necessary financial sources and computer equipment and to organize regular training for local authority urban officers.

Informal/illegal housing construction and the Construction Police

In Tirana a special office based on articles 75-80 of the Law on Urban Planning was created to deal with the problem of illegal settlements. Article 75 states that arbitrary land occupation for every type of building has to be solved by the immediate demolition of the building at the expense of the violator. Fining, demolition and the restoration of land to its previous state should be ordered by the head of the Construction Police branch for the district and the Construction Police are authorized to carry out the order.

The Construction Police's competence was settled in the Law on the Construction Police (No. 7752/1993) as amended by Law No. 8408/1998. According to the latest legislative provisions, it is a centrally organized inspectorate focusing on: the inspection of building work; penalizing the violation of building norms, laws or rules accepted in urban plans; ordering and ensuring the direct demolition of housing constructed illegally. The General Director of the Construction Police is appointed by the Prime Minister and the Deputy Director by the Minister of Territorial Development and Tourism. The Construction Police has branches in all the districts of the country and can directly take action in

accordance with the Law on Urban Planning and Law on the Construction Police. Though the Construction Police must carry out all the orders of the territorial development council, due to its high level of independence, it has the right to send a decision of the council for review to the national Council and/or prefect, both having the right to annul it. Moreover, the Construction Police can take action on its own without any order from the local territorial development council or the national Council.

The decision procedure is relatively quick. The person or household affected has the right to appeal to the court, but the execution of a decision by the Construction Police cannot be suspended by the appeal (see also chap. III). Compensation must be paid by the Construction Police only when its decision is disallowed by the court. As the breaching of building and urban norms is quite common in Albania, the Construction Police can solve only a small number of illegal cases -- which ones can be influenced by the interests of particular persons or corruption.

The central organization and high level of independence of the Construction Police are not in accordance with the decentralization legislation and need to be amended by further laws. It is proposed to transfer its responsibilities to the local authorities or the municipal police and local urban inspectorates. Any major decision (demolition) should be discussed at local level in legally constituted commissions of several senior representatives of the local authority in order to reduce the danger of corruption.

The registration in the Immovable Property Registries of buildings without a permit is prohibited. Possible action is outlined in the Law on Urban Planning, which deals with the issue of illegal construction but concerns only those objects that were constructed illegally before the Law came into effect. Its article 77 states that illegal constructions in areas for which there were technical studies and/or urban plans in force should be demolished in stages. Illegal constructions which pose risks to the environment or occupy public land should be demolished immediately. And, finally, illegal constructions on the builders' own land which do not meet the first two conditions may be legalized. In cases of legalisation, the owners must pay a fine of 10% of the investment value, or 4% of this value in the case of residential buildings.

The Tirana municipality is afraid, however, of the strict application of this Law due to the possible social revolt of the inhabitants of illegal settlements. The clear preference of the Law for the demolition solution of this problem is criticized by NGOs that are trying to find different ways of dealing with the unrestrained flow of rural inhabitants to urban areas (see also chap. II). Moreover, the Law deals only with illegal constructions built before it came into force but since 1998 many new illegal settlements and constructions have sprung up in Albania's cities. This contradiction should be solved by a new amendment of the Law.

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, Gjirokastrer 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 of 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.

CONCLUSIONS AND RECOMMENDATIONS

Introduction

According to the Albanian authorities, the UNECE work on the Country Profile on the Albanian housing sector started at a propitious moment. The Government adopted a Housing Strategy Action Plan in early 2001 and it prepared a national housing policy during this same year. A draft act on housing for low-income families was prepared in early 2002 and circulated among the relevant authorities for comment. The present momentum, which means that while the housing authorities know relatively well where they are and what they want, they still need and expect advice from outside on how to implement their policies and on the respective priorities.

This situation put a certain pressure on the international team of experts reviewing the Albanian housing sector and, as a result, the report is not only descriptive and analytic, but tries to make concrete proposals on the next steps to be taken and by whom, taking into account all levels of stakeholders in the housing sector, the central, regional and local authorities, as well as the private sector and non-governmental organizations and communities.

There is a genuine interest in learning from the experience of other countries, not least from those that have gone through the transition from a centrally planned to a market economy. A major government reshuffle was carried out during the Country Profile study, but there are no signs that the Government's interest or commitment to tackling housing problems is waning. In the reshuffle, the names of some ministries were changed, the ministry in charge of housing, changing from the Ministry of Public Works and Tourism to the Ministry of Territorial Development and Tourism (some translations from the Albanian use the expressions 'Territorial Adjustment' or 'Territorial Regulation').

The UNECE Country Profiles are always carried out at the request of the Government. The expected benefits of these studies are threefold:

- The process incites the country to improve its statistical and other data for later use, and to self-evaluate existing conditions, trends, policy commitments, institutional arrangements and the practical ability to carry out work nationally;
- Governmental and other agencies are given a tool for assessing and redirecting their policies and facilitating their decision-making processes, for eliminating bottlenecks and for establishing long-term housing improvement strategies; and
- The report provides relevant and updated information to all actors, public and private, working in housing in the country and abroad. It also lays the basis for international comparison and subsequent studies.

This report respects the conventional UNECE Country Profile structure and consists of five broad subject areas, each analysed by a member of an independent international team of experts:

- I. Framework for the housing transition;
- II. Existing housing stock and new housing construction;
- III. Institutional framework;
- IV. Legal framework;
- V. Financial framework.

Since housing, by its very nature, is highly integrated, the conclusions and recommendations do not necessarily follow the chapter structure, but often unite the various aspects of a specific issue, combining its institutional, legal and financial aspects, for instance.

It is hoped that this study will give a comprehensive picture of Albania's housing sector and provide guidelines for the Government to formulate its policies, to develop a comprehensive national housing strategy and to address problems responsibly and effectively.

A. Framework for the housing sector transition

General socio-economic situation

The Albanian population has moved much during recent years and apparently is still doing so. Problems arise because these movements are largely uncontrolled. There are no forecasts of future migration. Existing spatial plans are in most cases out of date since they go back to the 1980s and do not reflect the important demographic and physical changes of the 1990s. There is continuing migration from rural areas to some major cities, including Tirana. Migration still continues from inland Albania to Tirana and the coastal areas in general and no successful efforts seem to be made to stop it or slow it down. As a result the country is gradually splitting into two zones, one with growth problems and the other with those of a declining economy. The problems of the declining communities will soon become a major issue.

On the other hand, large parts of the population, estimated at more than half a million people, left the country during the 1990s. Remittances from abroad are an important component of the national economy.

The macroeconomic indicators, which for the time being are relatively promising, may once again prove to be misleading in the long run. The financial sector is still underdeveloped and much economic activity is informal. Any real possibility of measuring the income and affordability levels is limited. In Albania, housing construction is not a major multiplier for the national economy as it is in some other countries. In addition, unemployment remains high.

Government policies

The current housing policy of the Government is ex-post, aiming at solving existing problems with no long-term perspective and little development control.

Part of the housing problem is the result of harsh economic circumstances and part of socio-political changes inevitably brought about by the transition process. Many problems today seem to be closely interconnected. Unless the rural-urban migration problem is tackled seriously and the present housing stock regarded as a capital investment, it will be very difficult for the Government to cope with future demand for social housing. Income stability and housing conditions are positively correlated. Integration of the poor through the development of social capital and the role of the Government as a facilitator of this development, rather than a mere provider of funds, would be steps in the right direction.

The Albanian Government does not seem to have a comprehensive approach to the housing sector. It is addressing the most urgent issues on an ad hoc basis without having formulated general policy directions, without a long-term framework and without in-depth analyses of the current situation. Such emergency action can be justified by the critical situation in the housing sector caused by the massive migration, but it may well undermine the sector's sustainability in the long run. This was how the privatization of the public housing stock was carried out and, as a result, the State did not retain any housing stock for social housing, did not create a framework for the maintenance of the flats in the condominiums, was politically forced to provide housing for those who lost their housing to former owners with serious consequences for public expenditure. Continued ad-hoc action and projects may overlook certain aspects of the problems and create new problems.

A government cannot rely entirely on the market to regulate all housing issues. Even in a market economy the government has an important role as facilitator or enabler and provider of the basic framework for the housing sector as a whole – including the institutional, financial and legal conditions needed to guarantee the development of the sector. Another important government role is to enforce the law and, finally, to provide social housing.

There is a visible need to encourage citizens to invest in housing rather than to spend on consumer goods. Owner-occupied private housing - sustainably built and in the right locations - which can be safely traded, mortgaged and inherited is a major means of accumulating sustainable wealth for households and, in the long run, one of the most secure ways of poverty alleviation for the whole nation. Dwellings are normally the biggest single item of the national assets of European countries. Housing construction can be a major employer with considerable multiplier effects in other sectors of the economy, such as the

materials industry and transport. It is labour-intensive, it can be started at a low technological level and on limited capital, yet it produces long-lasting investments, which will always stay in the country. Careful policies can ensure that a major share of the materials used is domestically produced.

Income generation comes first among the measures needed. It would be impossible to achieve homeownership and maintenance of the housing stock if productive employment is not generated for a large number of the unemployed and homeless. What is needed is stable employment, higher pay and a consolidated competitive overall economy with sanctions against the grey economy and tax evasion.

Governments can favour investment in housing by tax incentives, which, however, may not be effective in Albania owing to income tax collection deficiencies and the large grey economy. Supporting infrastructure provision for building sites, making land available and any direct support for housing provision would require considerable public funds. One way of getting them could be to introduce a car tax and use that income for infrastructure and social housing provision. Taxing the purchase, ownership and fuel of private cars would be easy and productive and, although perhaps hard to introduce culturally and politically, would be considered justified by the general public. There is also a gender dimension in that family money spent on luxury cars is often taken from women and children.

Homelessness and social housing

The most salient characteristics of the Albanian housing situation are the number and the definition of homeless families. The number of homeless families on government waiting lists is constantly increasing. However, the Government, according to current legislation, has obligations towards 46,000 families registered between 1992 and 1998. These homeless households were classified in six major categories according to the legally binding definition of homelessness owing to privatization, none of which is related to income or to social criteria. In the present difficult economic situation, the Government is excessively committed to various categories of "homeless families", while trying to lay the foundations of an efficient housing policy.

There are several questions to be asked: is the definition of homelessness sustainable, bearing in mind the current financial situation and the macro-economic prospects of the country? What is the political clout behind it? Has each category of the homeless been well analysed and understood in terms of their socio-economic ability to help themselves? It is clear that homelessness is a major issue for Albania, but is it also a major excuse? It would seem that not much is being done for those who were put on the waiting lists. The question of affordability for the middle and lower classes, not to mention the really homeless, has been neglected so far, particularly in the cities. It is obvious that the six categories should be abolished and a new policy introduced.

Law No. 8030/1995 on State Support for Homeless Families is very politicized. Different strategies, often excluding economic status, are used in the allocation of subsidies. The Law is very wide-ranging and thus unrealistic. In the absence of any points system, it is difficult to establish priorities within one selected category. Romanian housing practice could be taken as one example of a transparent point system.

Social housing, meaning subsidized rented housing, is an issue that the Government has not addressed properly so far. However, there is a clear intention to reformulate the Government's housing policy priorities, as can be seen in the recent Housing Strategy Action Plan and in the draft act on housing for low-income families. The basis of housing policy is being now defined as a "fair" redistribution of the housing stock. The Action Plan states that future State aid for social housing will be means-tested. Therefore, the first task is to establish affordability levels nationally. Nor does a uniformly defined and adopted poverty line seem to exist. Household budget surveys have been conducted in the past and are expected to continue in the future, so as to establish these criteria nationally. Priority in selecting the beneficiaries of social housing assistance should be given to the socio-economic determinants of family well-being and not to political factors. However, the new attempts to define target groups are based on income alone and not on social criteria.

Recommendations - HOUSING POLICY

1.1. It is of utmost importance to consider the present housing problems of Albania holistically. The emphasis should be on sound strategic urban planning and regional economic development so as to reduce housing demand pressure on the one hand and the under-utilization of the housing stock on the other. Long-term plans should be supported by mid-term plans. The housing policy of the Government should be comprehensive, it should reflect a broad sectoral perspective.

1.2. Housing policy cannot be formulated without regard to regional development. The Ministry of Territorial Development and Tourism should cooperate with the Ministry of the Economy, the Ministry of Industry and Energy, the Ministry of Agriculture and the Ministry of Local Government to develop regional macroeconomic policies to stimulate investment and create employment opportunities in all regions and in particular to revitalize secondary cities, which would, as a result, ease migration pressures on Tirana and the coastal areas.

1.3. A housing policy for rural areas should also be formulated.

1.4. A national housing strategy should be formulated around the Government as a facilitator, a legislator and the supervisor of law and as the provider of social housing. The strategy should aim at:

- (i) Creating a framework for the housing sector in a market economy;
- (ii) Drawing up and implementing the relevant laws;
- (iii) Providing social housing for selected target groups;
- (iv) Raising the necessary public financing.

In very broad terms, the Government should introduce a series of policies to encourage citizens to invest in housing rather than in consumer goods. One of the main goals should be to secure the ownership of land and properties and ensure a fair legalization of illegal settlements. Another would be to increase public funds for housing by earmarking tax income for housing purposes only.

1.5. A high level of priority should be given to:

- (i) Completing land title registration;
- (ii) Regularizing illegal developments, building on the pilot work carried out at Bathore and elsewhere;
- (iii) Improving the performance of key utilities;
- (iv) Developing the mortgage market.

1.6. Parts of the above-mentioned work could include international donor support, which should be well coordinated, either by the Ministry or by any new central government body established for housing sector coordination.

Recommendations - SOCIAL HOUSING

Several fundamental policy issues concerning social housing should be addressed by the Government:

1.7 The definition of target groups for State housing provision.

To increase the social effectiveness of public subsidies, the prioritization of homeless households should lay greater emphasis on the financial and social situation of the family.

(i) If lists of "homeless" are kept they should be constantly updated and revised. Priority should be given to the most needy in the first years and only then to less urgent cases. Those who can afford housing at market prices should be excluded from the lists.

(ii) Financial restrictions and a situation in which it is impossible for the Government to meet current unrealistic obligations, demand a new priority list of families, based on demographic, economic, social and true housing situation criteria. The impact of each criterion should be measured and the respective/ specific weight expressed by a number of points or a system of marks. It is important to concentrate on the most needy families.

(iii) *The definition of the target groups should lay down criteria which the family or individual has to meet to be considered for social housing. These criteria could be:*

- *Inadequate housing conditions (based on a minimum living space per person, and other similar criteria);*
- *The income of the household or individual;*
- *Certain social groups, such as one-parent families, elderly, handicapped or unemployed persons who do not have title to another dwelling. The maximum income should be fixed as a certain percentage of the average income in the region. Group composition should be discussed and established in cooperation with the Ministry of Labour and Social Affairs.*

(iv) *Assessing the real income of families may be difficult. However, if the social housing were of a minimum standard those families who can afford better would not be interested in it in the first place. There should also be restrictions on selling a dwelling obtained with State support, for at least a certain time such as 10 years, and if it is sold, the subsidy should be fully or partially repaid. This would require an efficient registration system.*

1.8. *The definition of kinds of social housing.*

(i) *Form of tenure - rental or ownership: State provision of housing, other than temporary shelters and housing for orphans, should be for renting and not for private ownership. The need for social rental housing in the cities should be assessed. Potential groups that might be interested in such housing as a temporary option at some stage in their lives may include young urban couples or the unemployed.*

(ii) *Temporary shelter (multiple occupation housing), with communal kitchens and bathrooms, should be available for those in extreme situations.*

(iii) *Standards - the number of rooms and surface should vary.*

1.9. *The definition of beneficiaries.*

In social rental housing it would seem logical to subsidize the future landlord - the institution responsible for commissioning the construction, the one who would remain the owner of the stock and be responsible for maintenance.

Forms of State subsidy should be described in the finest detail:

(i) *For whom? Individuals, the entity that will commission the construction, or developers/ constructors?*

(ii) *In what form? Direct grant, subsidy, preferential loan or tax exemptions?*

(iii) *What are the conditions?*

1.10. *The possibility of channelling State financing through institutions other than the National Housing Agency (NHA) should be considered. Possible actors are the local governments, NGOs and social housing associations. The role of the Savings Bank and the specific responsibilities of the Savings Bank and the NHA in channelling the Government's preferential loans should be clarified before the forthcoming privatization of the Bank.*

The main existing actors and their roles should be reviewed and fixed coherently: the Ministry of Territorial Development and Tourism, the Ministry of Social Affairs and Labour, local governments and the NHA. The role and the competencies of local government in the provision of social housing should be specified.

Other possible actors and their roles should be considered: NGOs, social housing associations, housing cooperatives - creation of the last two would require a separate legal framework.

It should be decided who has the right to commission social housing, who supervises and who controls it. Commissioning could be the responsibility of different institutions such as local governments or specialized entities. However, since housing legally falls within the authority of the municipalities, they should have a greater role in this sphere. Their functions should be implemented within a framework set by the State, and financed from the State budget. There should be a special budget line for social housing in the State budget.

1.11. It is recommended that social housing units should be commissioned by municipalities, which should remain the owners of them. Alternatively, they could be commissioned by other entities like NGOs or social housing associations, which, in that case, should receive State support. Possible institutions should be identified. The experience of other countries, such as the social housing associations in Poland, should be studied and used.

1.12 Right now social spatial segregation is not a major problem in Albania. Measures should be taken to preserve this situation and prevent the creation of social ghettos. If the allocation of land for social housing depends on its location and price it may lead to the creation of socially segregated areas. Social mix can be achieved through mixed ownership forms within housing areas.

Illegal housing

Illegal housing is one of the quantitatively most important problems. There is a great variety of forms of illegal construction, occupation and use of land. A major problem is that large areas have been built over with one-family houses with no technical infrastructure; the introduction of utilities afterwards will be costly, particularly when, in most cases, there has been no systematic urban planning. Much public land has already been occupied and people are building on it illegally and without proper control, registration or infrastructure. Compensation to the original private landowners is and will be a major problem.

The World Bank's Urban Land Management Project is addressing illegal settlements in an area outside Tirana providing them with primary technical infrastructure. The project raises the question of giving priority to infrastructure before legalizing the position of the settlers. This leaves both the Government and the settlers in doubt as to the financial conditions of the legalization; whether the land should be sold to settlers and compensation paid to the original owners on the basis of its value as agricultural land or as a serviced area. A decision should be taken as soon as possible on this demonstration project, and the Government should be helped to formulate a sustainable policy for future compensation and legalization situations, which will be numerous around the whole country. There is the risk that, as time passes, the State will accumulate a tremendous financial burden.

Recommendations - ILLEGAL HOUSING

1.13 There is an urgent need for the Government to formulate a policy on the illegal housing resulting from the massive migration to cities and coastal areas in the early 1990s. The Urban Land Management Project in the illegal settlements where the Government is providing infrastructure should be evaluated and revised. The provision of infrastructure and the settling of the legal issues should be given priority, with the higher priority going to legal issues. The conditions on which those properties would be legalized should be established and published before extending the infrastructure project. In particular, clarification is needed on:

- (i) The basis on which these settlements will be legalized;*
- (ii) Which areas will be legalized;*
- (iii) Whether the price of land sold to occupants will be that of agricultural land, of serviced land or any other price. Since families are supposed to pay 20% of the cost of the primary and secondary infrastructure, it is recommended that the land should be sold at the price of agricultural land. The notion of free land should be banished.*

It should be also clearly stated that, in the case of a claim for the restitution of land in those areas, compensation to the original owners would also be paid at the price of agricultural land, unless the new occupants were charged a serviced land price.

The Government should address this question, recognizing that:

- The illegal construction took place because no preparation had been made to accommodate the flow of migrants, who therefore had to fend for themselves and build illegally;*

- *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.

Source: UNECE Land Administration Guidelines, United Nations, New York and Geneva, 1996 p. 28
Taxing land and property.

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.

BIBLIOGRAPHY

- Albania. Council of Ministers. Strategy on growth and poverty reduction. Second draft, 24 July 2001.
- Albania. Ministry of Public Works and Tourism. Project proposal for the National Housing Programme. 1999.
- _____. Terms of Reference for The National Housing Strategy. 2001.
- _____. Rapport on the preliminary meeting about the financial issues in housing held on 4 May 2001 to discuss the implementation of the Action Plan for the National Housing Strategy, approved by the Government with Decree No. 21, dt. 20.01.2001, and to establish the tasks and the time schedule.
- _____. Action plan for the National Housing Strategy. 2001.
- _____. Urban development and poverty reduction. Draft 2001.
- _____. INSTAT. Results of household living conditions survey, October 1998. Tirana, 2001.
- _____. Preliminary results of the population and housing census 2001, Tirana 2001.
- _____. Albania in figures 1997, 2000 and 2001.
- Andoni, Doris. Ministry of Public Works and Transport, Housing Department. National housing policy in Albania and the role of the National Housing Agency: Issues and recommendations. 5th International Course on Inner City Development in Transitional Economies HIS Rotterdam, Netherlands, April 1998.
- _____. The impact of the housing policy on the poor in Albania. 4 December 2000.
- Besnik, Aliaj. Structure plan: New planning framework to guide development in the greater Tirana metropolitan region. Urban management centre. Master degree course in urban management 95/96. Urban development planning module. Term paper. 1996.
- _____. NGOs/CBOs and housing for low-income people in Albania. Chapter 4, draft paper. 2001.
- _____. Pilot actions for community-based planning of irregular settlements in Tirana, Albania. International Conference - City and Culture, Urban Sustainability and Cultural Processes, Stockholm - Cultural capital of Europe '98. 13-17 May 1998.
- _____. Housing Models in Albania between 1945-1999. 1999.
- Boorer, M. All rich now? Housing and change in Albania. *Housing Review*. vol. 45. No. 6 November – December 1996.
- Centre for Habitat Development CoPlan Information booklet.
- _____. Making people and communities partners of the authorities through the assistance for urban rehabilitation and housing. Tirana July 24, 2001.
- _____. Kamza region: Socio-economic profile. 2001.
- Donovan, Jerome and Michael McLindon. Institute for Public-Private Partnerships, Inc., Planning and Development Collaborative International, Inc. (PADCO). Private sector development of housing, Eastern Europe: Report and recommendation for an independent regulatory commission. Field report. Prepared for USAID. May 1995 [19 p.]
- Driscoll, John, Olgun Ersenkal and Sally W. Iadarola. Planning and Development Collaborative International, Inc. (PADCO). Land development strategies for residential development: case study of Tirana. Implications for a national strategy. Final draft. Prepared for USAID. 17 August 1994 [55 p.]
- Economist Intelligence Unit. Albania country report. January 2001.
- _____. Albania country profile 2001.
- _____. Albania country profile 2002.

- Fernandes, Edesio. Report of activities on "Assistance for the establishment of the unit for reviewing the constructions without permission" in the Municipality of Tirana, Albania. Tirana, 18 November 2001.
- German Technical Assistance, Eschborn, Institute of Ecological and Regional Development, Dresden. Towards a sustainable development of Tirana – Durres corridor. Regional development study for the Tirana – Durres region: development concept. Draft. Tirana, February 2002.
- Hodaj, F. Local Government in Albania. Albanian Association of Municipalities. Strengthening the European tendencies of development in local self-government in Southeastern Europe.
- International Conference of the European Network of Housing Research (ENHR). Making cities work! Comparing between "transitional" and "developed" urban and housing models. Draft. Tirana, 20 October 2001.
- International Monetary Fund. Staff country report No. 00/87. Albania: Statistical Appendix. July 2000.
- Kuriakose, Anne T. Who is housed? The debate over access to housing in North America and Western Europe and its relevance to housing policy in Albania. Land Tenure Center, University of Wisconsin. Madison. 4 May 2001.
- PADCO. Urban land management project. Strategic plan for Greater Tirana, volumes 1 and 2. 1 February 2002.
- _____. Urban land management project. Background studies: Strategic plan for Greater Tirana. Financial review of selected infrastructure service providers. Prepared for the Ministry of Public Works, Government of Albania. 25 January 2002.
- Slootweg Sef. SNV-Fier. Report expert mission 13-15 June 2001 Korçe. 20 June 2001.
- Stanfield, D., M. Childress, A. Dervishi and L. Korra. Emerging real estate markets in metropolitan Tirana, Albania. Land Tenure Center, University of Wisconsin. Madison. October 1999.
- World Bank. Albania at a glance – Report 10 Oct. 2001.
- _____. Country assistance strategy – Progress report 2000.
- _____. Interim poverty reduction strategy paper. 3 May 2000.
- _____. Albania housing project 1999.
- _____. Project appraisal document – Urban land management project, 21 April 1998.
- _____. Albania – Land development project. Report No. PIC2387, 24 January 1997.
- _____. Staff appraisal report. Albania: urban works and micro-enterprise pilot project. Report No. 13410-ALB. 30 June 1995.
- _____. Staff appraisal report. Albania: Housing project. Report No 11747-ALB. 9 June 1993.
- United Nations Development Programme. Human development report 2000.
- United Nations. Economic Commission for Europe. Strategies to implement human settlements policies on urban renewal and housing modernization. New York and Geneva 1996. Sales No. E.96.II.E.8.
- _____. Implementation of human settlements policies on urban renewal and housing modernization: evaluation of four case studies. 23 July 1999. (HBP/1999/9).
- Zyher, Beci (adviser to the Minister of the Local Government and Decentralization). Report on the local governance programme for UNDP. 2001.