



PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL, INC.

FINAL REPORT

**PRIVATE SECTOR DEVELOPMENT OF HOUSING
EASTERN EUROPE**

**NATIONAL HOUSING AGENCY OF ALBANIA
A FINANCIAL REVIEW OF CURRENT
STATUS AND PLANS**

Prepared for

**U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs**

April 1993

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Bureau for Private Enterprise
Office of Housing and Urban Programs
Washington, DC**

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Abstract

A joint USAID-World Bank mission to Albania in late February 1993 appraised the country's state housing sector and evaluated proposed technical assistance to the National Housing Agency of Albania. The World Bank is considering financing the completion of an estimated 13,300 units of partially constructed housing, which would add substantially to the stock of 200,000 state-owned units. The NHA, conceived of as an autonomous organization to complete and build new housing, has received government loans totalling Lek equivalent \$13 million and has been designated as beneficiary for proceeds from the sale of state-owned housing in 1993, which could bring in \$13 million to \$20 million. The Agency's staff has almost no experience in finance. World Bank guidelines for the proposed loan require true financial autonomy for the NHA, and in response to concerns about NHA independence and internal structure, the Mission drafted a revised charter for the Agency for consideration by the government, after consultation with NHA and GOA officials. The mission also gained a commitment that the NHA would award construction contracts on the basis of competitive bidding, which will help contain costs and drive privatization of the construction industry. The NHA needs hands-on, steady advice on financial systems, procurement procedures, contract and project management, and market analysis. These considerable technical assistance needs would best be met by two long-term housing sector advisors based in Albania. A Project Manager would act as a senior advisor to the Minister of Construction, NHA, and other agencies on housing policy issues, while a Technical Advisor would help the NHA develop effective management policies.

Part I: A Financial Review of Current Status and Plans

1 Objectives

From February 25 to March 6, 1993 a joint World Bank-USAID mission visited Albania to appraise a proposed project of investment and technical assistance for that country's housing sector. The mission was lead by Mr. Gian Carlo Guarda, Principal Planner, Infrastructure Operations section of the Bank's department responsible for Eastern Europe. The Bank had two consultants, Antonio Milia, an architect specializing in construction costs and capacities, and Adrian Konini, an Albanian expatriate and former director of its state housing department. USAID provided, through its contract with PADCO, Inc., three consultants: Carol Rabenherst, a lawyer, Ira Lowry, a housing policy expert and Everett Post, a financial specialist.

The team's efforts were guided by the World Bank's Albania: Housing Project Appraisal, Terms of Reference for the Mission, dated February 22, 1993 and the USAID contract with PADCO, Inc., No. EUR-0034-C-2032-00, RFS 18, as specified in PADCO's contracts with its consultants.

These guidelines required that analysis and cash flows be completed based on a requirement that the executing agency, the National Housing Agency of Albania (NHA), must cover all its incremental costs with the proceeds of the housing units it sells and that the sales price be affordable to the Albanian people. Institutional development recommendations were to focus on NHA's completion of housing now under construction and insure that NHA not become a financial institution. They were to be supported by detailed proposals regarding the technical assistance needed.

2 Background

The Government of Albania (GOA) currently owns over 200,000 dwelling units, mainly in urban apartment buildings built during the Communist regime and managed by the Ministry of Construction (MOC). In addition, it has 13,300 more units in various stages of construction on which work has stopped. The World Bank is considering financing the completion of some portion of these units through a 40-year, no interest loan from the International Development Association (IDA) of up to \$15 million. On December 10, 1992, the GOA created an autonomous organization, the National Housing Agency¹, to complete and build new housing with IDA and other funding. NHA was given broad powers and is currently staffed with MOC personnel and based at that ministry. Our mission worked primarily with the Minister of Construction, Ilir Manushi, and MOC and NHA staff to determine the Agency's current legal, financial and operational status and to help develop its plans and policies in accordance with our guidelines.

¹In Albanian, *Instituti Autonom te Banesave Sociale* (IABS), literally the Autonomous Institute of Social Housing.

3 Current Situation

Upon our arrival in Albania, we found that the funding structure of NHA had changed. The National Bank of Albania and the National Savings Bank had each made loans to NHA of the Lek equivalent of \$10 million and \$3 million respectively. The loans are at market rates and are each repayable over five years after a one year grace period. However, the Ministry of Finance had agreed to pay all interest charges for both loans, making them interest free for the Agency.

In addition, the National Housing Agency had been designated the beneficiary for the proceeds from the sales of state-owned housing being privatized during 1993. Those proceeds could total between \$13 and \$20 million. A January 29, 1993 GOA decree proposes to provide a more modest amount from the state budget to finish the units that are almost completed. Other potential sources of funds for the NHA were mentioned, e.g., a dedicated salary tax and an "investment" by the state insurance monopoly, but those proved to be only in the proposal stage. These new sources were identified and verified and their terms and conditions ascertained. Albanian and our mission's own experts provided estimates of the Agency's maximum annual expenditures.

Based on that information and taking into account the effect of inflation, a model was developed showing potential NHA cash flow from 1993 through 1999. Copies of that model showing various scenarios and a summary of the assumptions it contains are attached. That model shows that the Agency has more funds than it can effectively use during 1993 and 1994 even in the most conservative scenario. The domestic Lek denominated sources will be severely eroded if the high rate of inflation continues, but they will still be sufficient to cover projected disbursements during the first two years. After that period, the IDA funding and inflation protected sales of newly completed units will be essential for NHA viability if it is to adhere to World Bank/IMF guidelines and not be dependent on the GOA Treasury.

4 Issues

The World Bank guidelines for this project require that the NHA not be a drain on a very strained GOA state budget and that it be an independent entity with a role limited to arranging for the construction and sale of desperately needed housing. The mission identified a number of areas where GOA/MOC/NHA policies and plans were at variance with those guidelines and offered its advice on how those variances could be corrected.

We expressed concern about the interest subsidy on the loans from the National Bank and the Savings Bank and suggested that no housing dedicated salary tax or other major government subsidy be initiated. Mr. Guarda also obtained agreement in principle that most of the housing to be constructed, whether financed by IDA or other funds, be sold on terms that covered the incremental construction and administrative costs and are pegged to the U.S. dollar.

The mission also determined that the GOA decree establishing the Agency gives it powers inconsistent with the guidelines under which the World Bank can provide financing. NHA's current charter permits real estate speculation, managing rental properties and issuing bonds and specifies two fewer directors than is required by Albanian law. The NHA is supposed to be an autonomous legal entity. Its Board of Directors is composed of one representative each from the Ministry of Construction, the Ministry of Finance, and the Ministry of Work, Emigration and Social Assistance, who are to select a General Manager. In practice, the Agency is currently operating to a large degree as if it were a unit of the Housing Department of the Ministry of Construction. The Board apparently has never met.

After consultation between our mission and MOC/NHA officials, Carol Rabenhorst drafted a revised charter for GOA consideration that eliminated these inconsistencies and clarified the NHA's role.

NHA's general manager has borrowed in the Agency's name about \$13 million from Albanian banks and will be responsible for managing twenty five year loans to as many as 13,000 purchasers of housing units. His Agency will also need to collect from local housing agents the monthly payments from possibly more than 100,000 buyers who chose the privatization term payment option. His staff has almost no experience in finance and the Director of the Debt and Financial Policy at the Finance Ministry, responsible for the development of Albania's financial sector, was almost unaware of NHA's existence.

As noted above, the Finance Ministry has equal representation on the NHA Board with the Ministry of Construction. The revised charter that the mission proposed would add a representative each from the National Bank of Albania and the National Savings Bank. As the result of our visit, the Finance Ministry official responsible for developing the banking system and his advisor from the U.S. Treasury Department are now aware of the interim financial role of the National Housing Agency. They plan to monitor it to insure that it remains consistent with their plans for housing finance through the banking system.

The mission obtained agreement in principal for NHA to award construction contracts on the basis of competitive bidding to both help contain costs and to speed the privatization of the construction industry. The state owned construction enterprises operate with obsolete technology, have limited efficiency and quality control, have a vested interest in the housing they started under the former regime and have largely stopped operating during the last two years.

Legal issues also exist. Proposals were drafted to clarify the law on sales of housing, creation of condominiums and on collateral and the collection of past due loans made by the Agency. Some questions remain on the transfer of land sold with the apartment building. There may be some difficult political issues involving restitution of property to pre-communist owners and squatter occupied units, but their impact seems limited on the majority of the units now under construction.

5 Technical Assistance Needs

The NHA will need extensive financial technical assistance. As noted above, only one member of its current staff, Mr. Rexha who has worked for twenty years in the Finance Ministry, has any financial experience. Based on my discussions with him, even his knowledge is limited. The staff knows how to disburse funds in accordance with a stated budget, but has only the vaguest idea about managing cash flow from operations to repay loans, managing time payments from housing purchasers, etc.

There seems to be no one in the NHA who understands even the simplest computer. In fact the only piece of office equipment that its staff has now is an old manual typewriter. Calculations, when done, are made by hand and stored in a small cabinet or in bundles on the floor. When I asked at a meeting at the Finance Ministry if it would be able to provide an able staff person to help the NHA get started and to protect its interest in housing finance, I was told that there were not sufficient able financial personnel for their own needs.

Assistance should include training in: Accounting, basic credit policy and credit controls, loan processing and management, cash management, cost control, projections, budgeting and financial reporting, and pricing policy. Assistance will also be needed to establish policies and procedures in all those areas.

Part II: Technical Assistance Requirements

The National Housing Agency (NHA) is a start-up organization with a staff untrained in much of its proposed activity and management struggling to understand the effects of the concepts that they are to implement. The objective of the NHA staff, Minister of Construction Manushi and the Government is to encourage the privatization of the housing sector, but they have no experience in what that means or in how to achieve that objective. These conceptual difficulties are compounded by language difficulties, as few NHA staff members have more than basic working knowledge of major European languages and many speak only Albanian.

The Agency's General Manager, Sokol Ademi, is a former manager of one of the state production enterprises and seems to have a basic understanding of what must be done to run an effective operation. He has a staff of about 80, of whom about 10 work with him in Tirana and the rest are scattered in offices throughout Albania. With the exception of one man with twenty years experience at the Finance Ministry, all his staff is being transferred from the Housing Department of the Ministry of Construction.

The issues mentioned above would prove challenging to any organization. Without continued technical assistance, they could be insurmountable. Government of Albania (GOA) officials have proved very willing to act on advice. For example, they introduced and passed through the Albanian parliament a housing privatization law within one month of the date that it was proposed by a previous World Bank-USAID mission. Mr. Manushi seems especially quick to understand and act on sound advice. However, when no housing mission is in Tirana to give advice, the GOA has instituted some policies that will cause it problems if they cannot be changed. To a large extent, Albania is starting with a clean slate and has an opportunity to quickly introduce a rational and effective housing policy balancing private sector, local and national government activity, if it can avoid mistakes made by other countries in the past.

Previous World Bank-USAID missions have recommended continued technical assistance, some of which was completed during this mission just ended. Section 3.06 (b) of the draft World Bank Staff Appraisal Report of February 10, 1993 estimates that about \$1.5 million over a three year period will be needed to finance consultants, studies, office equipment and training programs for NHA and MOC staff. That report calls hands-on expertise and operational advice indispensable. Advice on financial systems (accounting, payment collection, loan and cash management, etc.) and on procurement procedures, contact management, project and market analysis and cost controls is also essential to the project's success.

It is the unanimous recommendation of the members of this mission that at least one long term housing sector advisor be sent to Albania. It seems probable that a long term senior advisor/project manager and a technical advisor would be more effective than would one advisor trying to fill both functions.

The Project Manager would:

- act as advisor to the Minister of Construction, the Board of Directors and General Manager of the National Housing Agency and other senior government officials on housing policy issues.
- manage housing sector technical assistance programs.
- act as liaison with the World Bank, USAID and other international funders and their local representatives.
- arrange specialized technical assistance and training, including assistance to local municipal or other housing organizations, as necessary.
- help develop housing sector programs that meet World Bank/IMF and USAID guidelines, meet Albanian needs and are workable.

If the National Housing Agency is to be a temporary organization solely devoted to the completion of the unfinished apartment buildings and to the privatization of the housing sector, then the Project Manager will need to take the lead in planning its eventual termination or transformation.

The Technical Advisor would work primarily with the National Housing Agency and would:

- assist the NHA General Manager to develop and implement effective management policies and structures.
- develop training requirements for NHA staff and coordinate training programs.
- help develop operating procedures and manuals for all functions and sections of the NHA.
- coordinate specialized assistance to the NHA.

As detailed in the Proposed Organization Chart prepared by Mr. Guarda, the NHA would have five operating sections: Operations, Marketing, Finance & Administration, Planning & Budgeting, and Legal. It would also have a Controller and a Project Evaluation Committee. The Departmental Task Matrix that he developed specifies seven parts to the process that the NHA will undergo: Planning & Monitoring, Promotion of the NHA, Contracting of Construction Work, Controlled Disbursement of Funds, Sale of Housing Units, Collection of Payments from Buyers, and Evaluation of Experience. He further identifies several stages within each part of the process. Few of these functions currently exist, and the current or potential staff members have little experience with most of the steps in this process. The Technical Advisor would have prime responsibility for helping to create this structure and process.

In addition to these two advisors, there would be a need for short term technical assistance of some or more of the following types:

- **Legal:** to help draft laws, regulations, contracts, etc. to implement this process, and keep it consistent and within existing law.

- Pricing and Costing
- Construction Management
- Finance
- Banking, Accounting and Credit Control
- Land use and land costing
- Rent Policy
- Procurement Procedures
- Basic Automation and MIS

Part III: Financial Model Assumptions, March 10, 1993

1 Background

The financial consultant contract required completion of cash flow analysis of the National Housing Agency to verify its viability under the terms specified by the World Bank for the proposed IDA loan. The Model that I developed for the financial review of the potential sources and uses of funds of the National Housing Agency (NHA) is based on data gathered during the visit of the joint World Bank-USAID mission to Albania from February 24 to March 6, 1993 and from data gathered during previous missions. It covers the seven year period from 1993 through 1999, which corresponds to the tenor of the loans to the NHA from two Albanian banks, and the period during which work will be completed on most housing units left unfinished by the Communist regime.

2 Basic Assumptions

The model assumes that the NHA has only four sources of funds: loan proceeds, from the two domestic loans it has received and from the contemplated IDA loan, subsidies from the Albanian State Budget, the proceeds assigned to it from the privatization of state owned housing units and sales of housing units completed by firms working under NHA contract. The model limits the use of NHA funds to paying construction costs, principal and interest on loans and a small amount of operating and administrative costs, at present mainly wages.

The model is in dollars both for convenience and because the IDA loan is denominated in U.S. Dollars. All existing Lek amounts are converted at Lek 100 equals \$1.00. The World Bank requires that terms sales of units it finances must maintain their value. Therefore, the model assumes that units constructed for and sold by the Agency will be denominated in the Lek equivalent of the Dollar. The effects of projected inflation are shown directly on all other Lek amounts based on the working assumption that the changes in the Dollar/Lek exchange rate will equal the Albanian inflation rate.

3 Key Variables

The model is built to show the effects of changes in any of its assumptions on the NHA's cash flow, but it most easily shows the effects of changes in the drawdown of the loans, in annual construction costs, in the inflation rate, in the amount of total privatization sales, and in the percentage proportion of cash to term payment sales.

4 Specific Calculations - Sources

The loans Lek 1 billion from the National Bank and Lek 300 million from the Savings Bank are entered according to their terms as described by Mr. Skender Rexha of the NHA and others. Those terms and the schedules of principal and interest payments are shown on spreadsheets P57 and P96 respectively (see Attachment C). The National Housing Agency must present construction payment documents in order to draw funds from either loan; so the amounts drawn were adjusted to just cover projected construction costs. As there is a limit

on what can be effectively spent in 1993 and 1994, and therefore what can be drawn against the domestic loans, the major dollar value reduction in the proceeds from these loans from inflation is reflected in the model.

The proposed IDA loan of up to \$15 million is to the Government of Albania, which in turn will disburse the proceeds to the NHA. On loan closing date, anticipated in the third or fourth quarter of 1993, \$1,500,000 will be paid to the National Bank of Albania. All additional proceeds can only be disbursed against specific documentation, as required by the World Bank, of construction payments. The model assumes that the National Bank will only disburse the \$1.5 million to the NHA when it is needed in 1994 and that there will be no major delay between construction disbursements and related drawings on the IDA loan.

5 Subsidy from the State Budget

Government subsidies are limited to the payment by the Ministry of Finance of the interest on the two domestic loans in accordance with the agreement signed between that Ministry and the NHA. In this model, the subsidy amount exactly matches the amount of interest being paid, so there is no effect on other sources and uses of funds. The start up capital for the NHA provided in the reserve fund is assumed to be used in 1992 and the first quarter of 1993.

6 Proceeds of Privatization

Based on the advice of a previous World Bank-USAID mission, the Albanian parliament passed a law in December 1992 which will allow the occupants of over 200,000 state owned housing units to purchase them. Booklets containing this law and supporting regulations specifying how the price for each unit will be determined, the steps required for a purchase and the options (cash purchase, term purchase or continued rental) have been printed and distributed to current occupants. A privatization commission, funded by the state budget, has been established and has started to train its new field agents.

The proceeds of the privatization are to be completely allocated to the NHA. Under the schedule established for the privatization, sales should be finalized in 1993, but the commission is already behind schedule. Therefore the model assumes that half of the sales will be completed in 1993 and half in 1994. A model of the privatization was not built, but based on calculations made by a previous mission and by Ministry of Construction officials the total privatization sales could range from more than Lek 2 billion to about Lek 1.3 billion. The latter figure, determined by the last mission, is used in this model.

The purchase price of each unit is small and the buyers have the option of paying cash and getting a 12.5 percent discount or paying over time. There is a minimum monthly payment that effectively limits the tenor of the time payment option to ten years. The payments bear no interest and are not inflation indexed.

It is the strong opinion of the Ministry of Construction/NHA officials and of Mr. Konini that a large percentage of the purchasers will choose the cash option because the amount is relatively small and because the time payments leave them obligated to the State.

The model shows that changes in the percentage of cash sales have a major impact on NHA funding. The time payments will not be collected directly by the NHA but by the "Banesas" which are the local rental management units of the Ministry of Construction. As the Banesas are very underfunded, the model shows a high loss on these payments.

The model shows that inflation will erode the value of cash sales and severely reduce the value of the time payments over time. It also shows that, under any scenario, the privatization will provide a major source of funds for the NHA in 1993 and 1994.

Part IV: Notes on Financial Model Assumptions

1 Sources

1.1 Loans and Date Committed

1.1.1 From National Bank

As specified in the loan agreement and shown in supporting spreadsheet P57 (see Attachment C for the spreadsheets referenced in Part IV). Amount drawn each year varies directly with the amount of Construction Costs after proceeds of the Savings Bank Loan are fully used. Amounts drawn reduced by cumulative inflation since commitment date.

1.1.2 From Savings Bank

As specified in the loan agreement and shown in supporting spreadsheet P96. Amount drawn varies directly with Construction Costs after the Proceeds of Privatization are used. Amount drawn reduced by cumulative inflation since commitment date.

1.1.3 From World Bank/IDA

Variable amount and standard IDA terms as shown in supporting spreadsheet Q5. Amount drawn each year varies directly with Construction Costs after National Bank Loan fully used. Assumes that amount of \$1.5 million paid on closing to the National Bank of Albania will not be passed to the NHA until needed.

1.2 Subsidy from State Budget

1.2.1 Reserve Fund

As specified in Decree establishing the NHA. Capital to cover start up expenses assumed exhausted within first quarter 1993.

1.2.2 Interest Subsidies

As specified in the guarantee agreement from the Ministry of Finance to the NHA. Equals 100 percent of interest costs on the National Bank and Savings Bank Loans.

1.3 Proceeds of Privatization

1.3.1 Total Privatization Sales

Variable estimate based on terms of the privatization law and implementing regulations. Amount of total sales in 1993 and in 1994 based on variable estimate of percent of sales completed in each year. Annual totals reduced by cumulative inflation since 1/1/93.

1.3.2 Cash Sales

Variable amounts based on estimates of proportional percent cash sales to total sales, the amount of total sales each year and reduced by cumulative inflation since 1/1/93.

1.3.3 Discount on Cash Sales

Percent specified by the Privatization Law times the deflated value of Cash Sales.

1.3.4 10-year Payment Sales

Variable amounts based on estimates of proportional percent time payment sales to total sales, the amount of total sales each year, the annual payment terms specified in the Privatization Law and reduced by cumulative inflation since 1/1/93. These payments are indexed to the annual inflation adjustments to salaries of government employees. The model assumes that these adjustments cover only half the annual increase in inflation.

1.3.5 Losses, Loan Non-Payment

Variable based on estimate of percent probable non-payment times annual 10-year Payment Sales amount.

1.4 Sales Units in Construction

1.4.1 Total Sales

Varies directly with Construction Costs as shown in Sales of Units Now in Construction. Prices stated to buyers in dollars.

Cash Sales

Variable amounts based on estimations of proportional percent cash sales to total sales and the amount of total sales each year.

25-year Sales Payments

Variable amounts based on estimations of proportional percent time payment sales to total sales, the amount of total sales each year and the proposed payment schedule shown in spreadsheet AB17. Payments to be in Lek equivalent on payment dates of dollar payment amount. Change in Lek/Dollar rate assumed to equal inflation rate, so no inflation adjustment made.

Minimum Down Payment

Variable based on percent to be negotiated between Albania and the World Bank times the total annual 25-year Payment Sales.

1.4.2 Income on Financing Sales

Based on a 3 percent interest rate on outstanding 25-year Payment Sales.

1.4.3 Loss: Loan Non-Payment

Variable based on estimate of percent probable non-payment times the sum of annual amounts of 25-year Sales Payment and Income on Financing Sales.

1.5 Sales of Units Now in Construction

This is a table showing the calculation of Total Sales for item 1.4.1 above. The key assumption is that all units will be sold at a price based on the average cost all units to be completed and not the actual cost of a specific unit or the average price of a group or classification of units.

1.5.1 Percent Sold Each Year

Equals the Percent Completed Each Year, Units Under Construction. Assumption is that all units can be sold in the year that they are completed.

1.5.2 Number of Dwelling Units (DU)

Based on current information on the number of units out of the total now under construction that the NHA will be given to complete and sell. The breakdown is shown in spreadsheet AB36.

1.5.3 Cost of Construction

The total cost based on current information as shown in spreadsheet AB36.

1.5.4 Margin on Each Sale

Variable. Based on current agreement with the Government of Albania on the percent necessary to cover NHA administrative costs.

1.5.5 Land Price per DU

Based on a purchase from the state of the footprint of each building, assuming 15 square meters as an average size DU and a price of \$1.50 per DU. Average size and the price information provided by Albanian officials.

1.5.6 Total Sales

Annual amount equals the total sales price for all the units, as shown in the Total column, times the Percent Sold Each Year. The actual amounts will probably be higher in the early years and lower in the later ones because the lower cost "Relatively Advanced" units will be finished and sold first at a higher margin above average costs.

2 Uses of Funds

2.1 Construction Costs - Units Under Construction

Based information from and negotiation with Albanian officials on the units to be completed by the NHA as shown in spreadsheet AB36.

2.1.1 Percent Completed Each Year

Equals the annual cost divided by the total cost of DU Under Construction.

2.1.2 DU Under Construction

Variable amounts based on the capacity of the NHA to effectively spend funds on construction and the availability of funds from the above sources for each year. The expenditure limits are based on advice that the Albanian housing construction enterprises are either so new or are in such disarray that they will not be able to produce more than \$4 million in work in 1993, \$10 million in 1994, and \$15 to \$20 million in 1995. The limit is also based on the time needed, in 1993 especially, for the NHA to organize itself so that it can contract and manage a sufficient number of projects.

2.1.3 Other Construction Costs

This line was built into the model to allow it to show what additional construction could be done if funds were available.

2.2 Debt Service

2.2.1 National Bank Loan

Based on information from the loan agreement between the bank and NHA as explained by Mr. Rexha and his colleagues in the NHA finance section as shown in spreadsheet P57.

Principal

Total amount Lek 1 billion. Annual principal repayment amounts vary in relation to annual amounts drawn down based on the terms of the loan agreement. These include a one year grace period and 20 equal quarterly payments. They are reduced in dollar value by the rate of cumulative inflation.

Interest, 5 percent Margin

The spread over the base rate as specified in the loan agreement. Annual interest amounts reduced to reflect decrease in principal value by inflation.

Interest, Savings Deposit Rate

The rate that the National Bank pays for savings deposits is the base rate for the loan. It is adjusted semiannually to the then-current savings deposit rate. For simplicity, that rate is assumed to equal the annual inflation rate. Annual interest amounts reduced to reflect decrease in principal value by inflation.

2.2.2 Savings Bank Loan

Based on information from the loan agreement between the bank and NHA as explained by Mr. Rexha and his colleagues in the NHA finance section. Shown in spreadsheet P96.

Principal

Total amount Lek 300 million. Annual principal repayment amounts vary in relation to annual amounts drawn down based on the terms of the loan agreement. These include a

one year grace period and 60 equal monthly payments. They are reduced in dollar value by the rate of cumulative inflation.

Interest, 3 Percent Margin

The spread over the base rate as specified in the loan agreement. Annual interest amounts reduced to reflect decrease in principal value by inflation.

Interest, Savings Deposit Rate

The rate that the Savings Bank pays for savings deposits is the base rate for the loan. It is adjusted semiannually to the then-current savings deposit rate. For simplicity, that rate is assumed to equal the annual inflation rate. Annual interest amounts reduced to reflect decrease in principal value by inflation.

2.2.3 IDA Loan

Based on standard IDA terms for Albania shown in spreadsheet Q6.

Principal

Varies to a maximum of \$15 million. Ten year grace period means no payments during the years covered by the model.

Service Charge

Annual amounts equal 3/4 percent of annual outstandings.

2.3 Operating & Administrative Costs

Variable. Information based on current budget from finance section of the NHA. Model assumes a 10 percent increase in dollars per year.

2.3.1 Available Funds (Sources minus Uses)

The amounts drawn on the loans and/or spent on construction costs are adjusted to minimize this total.

2.3.2 Interest on Surplus Funds

We advised that 3 percent was the highest rate paid on government related deposits. This shows the interest that would be earned on any available funds surplus. The model has already adjusted for inflation.

2.3.3 Net Surplus/(Deficit)

The sum of Available Funds Balances and Interest on Surplus Funds to the year shown.

2.3.4 Inflation Assumptions

Variable. Based on World Bank estimates.

Percent value figures are functions of inflation used for calculation in the model.

Attachment A
Cash Flow Analysis

NATIONAL HOUSING AGENCY - ALBANIA

AMOUNTS IN THOUSANDS OF US DOLLARS AT \$1 = 100 leks

SOURCES AND USES OF FUNDS

		TOTAL	1993	1994	1995	1996	1997	1998	1999
SOURCES									
LOANS AND DATE COMMITTED									
FROM NATIONAL BANK - 1/93		10,000	200	1,710	0	0	0	0	0
FROM SAVINGS BANK - 11/92		3,000	1,200	0	0	0	0	0	0
FROM WORLD BANK/IDA - ?/93		15,000	0	3,000	9,000	3,000	0	0	0
CASH FROM BANKS		28,000	1,400	4,710	9,000	3,000	0	0	0
SUBSIDY FROM STATE BUDGET									
RESERVE FUND (USED IN 1992/93)		50	30						
INTEREST SUBSIDIES		1,721	260	496	605	250	75	27	7
CASH FROM STATE BUDGET		1,771	290	496	605	250	75	27	7
PROCEEDS OF PRIVATIZATION									
TOTAL PRIVATIZATION SALES		13,238	5,295	2,383					
- CASH SALES	50%	6,619	1,324	596					
- DISCOUNT ON CASH SALES	12.5%	(827)	(165)	(74)	0	0	0	0	0
- 10 YEAR PAYMENT SALES	50%	6,619	463	336	252	195	151	117	91
- LOSSES, LOAN NON-PAYMENT	50%	(3,310)	(232)	(168)	(126)	(93)	(76)	(59)	(45)
CASH FROM PRIVATIZATION		9,101	1,390	689	126	98	76	59	45
SALES, UNITS IN CONSTRUCTION									
TOTAL SALES		44,588	4,095	8,191	14,436	6,041	1,843	1,945	2,048
- CASH SALES	25%	11,147	1,024	2,048	3,609	1,510	461	486	512
- 25 YEAR SALES PAYMENTS	75%	33,441	117	350	762	934	986	1,042	1,100
- MINIMUM DOWNPAYMENT	5%	1,672	154	307	541	227	69	73	77
INCOME ON FINANCING SALES									
AT 3% FOR 25 YEAR		25,080	84	249	534	635	635	656	666
LOSS - LOAN NON-PAYMENT	10%	(5,852)	(20)	(60)	(130)	(157)	(162)	(170)	(177)
CASH FROM UNITS IN CONSTRUCTI		65,488	1,358	2,894	5,317	3,149	1,989	2,087	2,178
TOTAL SOURCES OF FUNDS		104,310	4,408	8,789	15,048	6,497	2,139	2,172	2,231
SALES OF UNITS NOW IN CONSTRUCTION									
% SOLD EACH YEAR			9%	18%	32%	14%	4%	4%	5%
# OF DWELLING UNITS (DU)		7,400							
- COST OF CONSTRUCTION		43,550							
- MARGIN ON EACH SALE		2%	871						
- LAND PRICE PER DU		22.50	167						
TOTAL SALES		44,588	4,095	8,191	14,436	6,041	1,843	1,945	2,048

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NATIONAL HOUSING AGENCY - ALBANIA

AMOUNTS IN THOUSANDS OF US DOLLARS AT \$1 = 100 leks

SOURCES AND USES OF FUNDS

	TOTAL	1993	1994	1995	1996	1997	1998	1999	
USES OF FUNDS									
CONSTRUCTION COSTS									
UNITS UNDER CONSTRUCTION									
- % COMPLETED EACH YEAR		9%	18%	32%	14%	4%	4%	5%	
DU UNDER CONSTRUCTION	7,400	43,550	4,000	8,000	14,100	5,900	1,800	1,900	2,000
OTHER CONSTRUCTION COSTS									
TOTAL CONSTRUCTION COSTS	43,550	4,000	8,000	14,100	5,900	1,800	1,900	2,000	
DEBT SERVICE									
NATIONAL BANK LOAN									
- PRINCIPAL	10,000	0	0	72	99	40	22	12	
- INTEREST, 5% Margin	1,680	0	25	44	20	6	2	1	
- INTEREST, SAVINGS DEP RATE	15,887	0	273	441	183	55	21	6	
SAVINGS BANK LOAN									
- PRINCIPAL	3,000	0	45	41	30	12	7	2	
- INTEREST, 3% Margin	303	13	11	7	3	1	0	0	
- INTEREST, SAVINGS DEP. RATE	4,952	248	187	113	45	12	4	1	
IDA LOAN									
- PRINCIPAL	15,000	0	0	0	0	0	0	0	
- SERVICE CHARGE (OVER 40 YEARS)	1,913	28	113	113	113	113	113	113	
TOTAL DEBT SERVICE	52,735	288	654	830	492	239	168	134	
OPERATING & ADMIN COSTS	474	50	55	61	67	73	81	89	
TOTAL USES OF FUNDS	96,759	4,338	8,709	14,991	6,458	2,112	2,148	2,223	
AVAILABLE FUNDS (SOURCES-USSES)	7,551	70	80	57	39	27	24	9	
INTEREST ON SURPLUS FUNDS	3%		1	2	3	4	5	5	
NET SURPLUS (DEFICIT)		70	151	210	252	283	312	326	
INFLATION ASSUMPTION - ALBANIA		60%	55%	50%	45%	45%	45%	45%	

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SOURCES AND USES OF FUNDS

SOURCES

LOANS AND DATE COMMITTED

	TOTAL	1993	1994	1995	1996	1997	1998	1999
FROM NATIONAL BANK - 1/93 (P57)	10,000	200	1,710	0	0	0	0	0
FROM SAVINGS BANK - 11/92 (P96)	3,000	1,200	0	0	0	0	0	0
FROM WORLD BANK/IDA - 7/93 (Q6)	15,000	0	3,000	9,000	3,000	0	0	0
CASH FROM BANKS	28,000	1,400	4,710	9,000	3,000	0	0	0

SUBSIDY FROM STATE BUDGET

RESERVE FUND (USED IN 1992/93)	50	30						
INTEREST SUBSIDIES	1,721	260	496	605	250	75	27	7
CASH FROM STATE BUDGET	1,771	290	496	605	250	75	27	7

PROCEEDS OF PRIVATIZATION

TOTAL PRIVATIZATION SALES		13,238	5,295	2,383				
- CASH SALES	50%	6,619	1,324	596				
- DISCOUNT ON CASH SALES	12.5%	(827)	(165)	(74)	0	0	0	0
- 10 YEAR PAYMENT SALES	50%	6,619	463	336	252	195	151	91
- LOSSES, LOAN NON-PAYMENT	50%	(3,310)	(232)	(158)	(126)	(98)	(76)	(45)
CASH FROM PRIVATIZATION		9,101	1,390	689	126	98	76	45

SALES, UNITS IN CONSTRUCTION

TOTAL SALES		44,588	4,095	8,191	14,436	6,041	1,843	1,945	2,048
- CASH SALES	25%	11,147	1,024	2,048	3,609	1,510	461	486	512
- 25 YEAR SALES PAYMENTS (AB17)	75%	33,441	117	350	762	934	986	1,042	1,100
- MINIMUM DOWNPAYMENT	5%	1,672	154	307	541	227	69	73	77
INCOME ON FINANCING SALES									
AT 3% FOR 25 YEAR (AB31)		25,080	84	249	534	635	635	656	666
LOSS - LOAN NON-PAYMENT	10%	(5,852)	(20)	(60)	(130)	(157)	(162)	(170)	(177)
CASH FROM UNITS IN CONSTRUCTION		65,488	1,358	2,894	5,317	3,149	1,989	2,087	2,178

TOTAL SOURCES OF FUNDS

104,310	4,408	8,789	15,048	6,497	2,139	2,172	2,231
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SALES OF UNITS NOW IN CONSTRUCTION

% SOLD EACH YEAR		9%	18%	32%	14%	4%	4%	5%	
# OF DWELLING UNITS (DU) (AB36)	7,400								
- COST OF CONSTRUCTION		43,550							
- MARGIN ON EACH SALE	2%	871							
- LAND PRICE PER DU	22.50	167							
TOTAL SALES		44,588	4,095	8,191	14,436	6,041	1,843	1,945	2,048

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SOURCES AND USES OF FUNDS

	TOTAL	1993	1994	1995	1996	1997	1998	1999	
USES OF FUNDS									
CONSTRUCTION COSTS									
UNITS UNDER CONSTRUCTION (AB36)									
- % COMPLETED EACH YEAR		9%	18%	32%	14%	4%	4%	5%	
DU UNDER CONSTRUCTION	7,400	43,550	4,000	8,000	14,100	5,900	1,800	1,900	2,000
OTHER CONSTRUCTION COSTS									
TOTAL CONSTRUCTION COSTS	43,550	4,000	8,000	14,100	5,900	1,800	1,900	2,000	
DEBT SERVICE									
NATIONAL BANK LOAN (P57)									
- PRINCIPAL	10,000	0	0	72	99	40	22	12	
- INTEREST, 5% Margin	1,680	0	25	44	20	6	2	1	
- INTEREST, SAVINGS DEP RATE	15,887	0	273	441	183	55	21	6	
SAVINGS BANK LOAN (P96)									
- PRINCIPAL	3,000	0	45	41	30	12	7	2	
- INTEREST, 3% Margin	303	13	11	7	3	1	0	0	
- INTEREST, SAVINGS DEP. RATE	4,952	248	187	113	45	12	4	1	
IDA LOAN (Q6)									
- PRINCIPAL	15,000	0	0	0	0	0	0	0	
- SERVICE CHARGE (OVER 40 YEARS)	1,913	28	113	113	113	113	113	113	
TOTAL DEBT SERVICE	52,735	288	654	830	492	239	168	134	
OPERATING & ADMIN COSTS	474	50	55	61	67	73	81	89	
TOTAL USES OF FUNDS	96,759	4,338	8,709	14,991	6,458	2,112	2,148	2,223	
AVAILABLE FUNDS (SOURCES-USES)	7,551	70	80	57	39	27	24	9	
INTEREST ON SURPLUS FUNDS	3%		1	2	3	4	5	5	
NET SURPLUS (DEFICIT)		70	151	210	252	283	312	326	
INFLATION ASSUMPTION - ALBANIA		60%	55%	50%	45%	45%	45%	45%	

Attachment B
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Attachment C
Model Calculations

DEBT SERVICE Spreadsheet Q6

IDA LOAN \$15 MILLION, SERVICE CHARGE 3/4% PA ON OUTSTANDING

10 year grace. payments 2% pa years 11-20, 4% p.a. years 20-40

YEAR	Drawdown	Outstanding	Repayment	Service Charge
1	0	0	0	0
2	3000	3000	0	11
3	9000	12000	0	56
4	3000	15000	0	101
5	0	15000	0	113
6	0	15000	0	113
7	0	15000	0	113
8		15000	0	113
9		15000	0	113
10		15000	0	113
11		14700	300	111
12		14400	300	109
13		14100	300	107
14		13800	300	105
15		13500	300	102
16		13200	300	100
17		12900	300	98
18		12600	300	96
19		12300	300	93
20		12000	300	91
21		11400	600	88
22		10800	600	83
23		10200	600	79
24		9600	600	74
25		9000	600	70
26		8400	600	65
27		7800	600	61
28		7200	600	56
29		6600	600	52
30		6000	600	47
31		5400	600	43
32		4800	600	38
33		4200	600	34
34		3600	600	29
35		3000	600	25
36		2400	600	20
37		1800	600	16
38		1200	600	11
39		600	600	7
40		0	600	2

TOTAL SERVICE CHARGE

1912.5

NATIONAL BANK, 1 billion lek, 1 yr grace

Spreadsheet P57

20 equal quarterly payments starting 1 yr from drawdown

Interest rate, Savings Deposit rate + 5%, adj ea 6 mos

Drawdown ends 6/94, Change in Savings deposit rate = inflation rate

NAT'L BK Quarter	Lek 1MMM = \$10MM			Repayment	Interest (at 5%)	Interest Savings Rate
	Drawdown	Outstanding				
1993	1	0	0	0	0	0
	2	0	0	0	0	0
	3	0	0	0	0	0
	4	0	0	0	0	0
1994	1	75	75	0	0	5
	2	900	975	0	7	72
	3	4025	5,000	0	37	411
	4	5000	10,000	0	94	1,031
1995	1		9,996	4	125	1,250
	2		9,948	49	125	1,246
	3		9,698	250	123	1,228
	4		9,198	500	118	1,181
1996	1		8,698	500	112	1,007
	2		8,198	500	106	950
	3		7,698	500	99	894
	4		7,198	500	93	838
1997	1		6,698	500	87	782
	2		6,198	500	81	725
	3		5,698	500	74	669
	4		5,198	500	68	613
1998	1		4,698	500	62	557
	2		4,198	500	56	500
	3		3,698	500	49	444
	4		3,198	500	43	388
1999	1		2,698	500	37	332
	2		2,198	500	31	275
	3		1,698	500	24	219
	4		1,198	500	18	163
			701	496	12	107
					1,680	15,887

Nat'l Savings Bk lek 300MM, 1 yr grace, 60 equal monthly payments

Interest - savings deposit rate + 3% adj semiannually

Quarter Year	Lek 300MM = \$3MM		Repayment	Interest	Interest
	Drawdown	Outstanding		(at 3%)	Savings Rate
4 1992	0	0	0	0	0
1 1993	500	500	0	2	38
2	1,000	1,500	0	8	150
3	0	1,500	0	11	225
4		1,500	0	11	206
1 1994		1,475	25	11	205
2		1,400	75	11	198
3	1,500	2,825	75	16	290
4		2,750	75	21	348
1 1995		2,675	75	20	339
2		2,600	75	20	330
3		2,450	150	19	316
4		2,300	150	18	267
1 1996		2,150	150	17	250
2		2,000	150	16	233
3		1,850	150	14	217
4		1,700	150	13	200
1 1997		1,550	150	12	183
2		1,400	150	11	166
3		1,250	150	10	149
4		1,100	150	9	132
1 1998		950	150	8	115
2		800	150	7	98
3		650	150	5	82
4		500	150	4	65
1 1999		375	125	3	49
2		300	75	3	38
3		225	75	2	30
4		150	75	1	21
		75	75	1	13
				303	4,952

Repayment of sales from construction

TOTAL	1993	1994	1995	1996	1996	1997	1998	1999
sold	2,918	5,836	10,286	4,304	1,313	1,386	1,459	0
Outstanding	2,801	8,287	17,811	21,181	21,164	21,852	22,211	21,111
principal payment 93 sale	117	117	117	117	117	117	117	117
principal payment 94 sale		233	233	233	233	233	233	233
principal payment 95 sale			411	411	411	411	411	411
principal payment 96 sale				172	172	172	172	172
principal payment 97 sale					53	53	53	53
principal payment 98 sale						55	55	55
principal payment 99 sale							58	58
								0
Total Repayment per year	117	350	762	934	986	1,042	1,100	1,100
Total Interest per Year at 3% pa	84	249	534	635	635	656	666	632

COST TO COMPLETE CONSTRUCTION

SPREADSHEET AB36

CURRENT OWNERSHIP/STATUS	# UNITS	COST (\$000)	% COMPLETED % SUNK COST
ECONOMIC ENTERPRISES	7,450	43,660	41.50%
ALMOST FINISHED	0	0	0.00%
RELATIVELY ADVANCED	2,470	6,180	75.00%
LESS ADVANCED	2,430	14,580	40.00%
LITTLE PROGRESS	2,550	22,900	10.00%
MINISTRY OF CONSTRUCTION	4,850	20,650	57.25%
ALMOST FINISHED	0	0	0.00%
RELATIVELY ADVANCED	2,950	5,800	80.00%
LESS ADVANCED	780	4,500	42.00%
LITTLE PROGRESS	1,120	10,350	10.00%
TOTAL	12300	64310	47.50%
LESS ALMOST FINISHED		0	

COST FOR NHA TO FINISH	# UNITS	COST (\$000)	% COMPLETED % SUNK COST
ALMOST FINISHED	0	0	0.00%
RELATIVELY ADVANCED	2,950	5,800	80.00%
LESS ADVANCED	780	4,500	42.00%
LITTLE PROGRESS	3,670	33,250	10.00%
TOTAL	7,400	43,550	0.00%