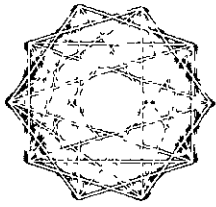


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P A D C O

PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL, INC.

PRELIMINARY REPORT

Private Sector Development Contract
Eastern Europe

Albania — Housing Policy

Prepared for

United States Agency for International Development
Bureau for Europe and the Newly Independent States
Office of Energy, Environment and Urban Development
Urban Development and Housing Division
Washington, DC

Prepared by

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Washington, DC 20007-5209

Contract No. EUR-0034-00-C-2032-00, RFS 70

June 1995

PROVIDES GOVERNMENTS AND PRIVATE CLIENTS WITH SERVICES IN PLANNING, HOUSING, MANAGEMENT, FINANCE, ECONOMICS, ENVIRONMENT, GEOGRAPHIC AND OTHER INFORMATION SERVICES, AND TRAINING.

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Executive Summary

In 1992, the National Housing Agency (NHA) was established by the Government of Albania (GOA) to complete approximately 4,500 apartment units left incomplete by the former regime. The funding for this project is supported by a World Bank (IDA) loan. In addition to these units, the NHA has also undertaken other housing completion projects funded by bank loans, by proceeds of privatization, and by the state budget. As the NHA has attempted to meet its objectives, it has been hampered by a number of political, legal, and structural roadblocks.

This report identifies the roadblocks faced by the NHA and presents recommendations to eliminate them. The reality is that the Government cannot meet the current total needs of affordable housing. This is simply beyond the capability of the national economy and must be recognized. A necessary first step is for the Government to determine how much money it can realistically commit to housing and infrastructure each year for the immediate future, and then to determine what specific programs can be supported within this commitment. Most importantly, the Government needs to establish a clear and economically sound National Housing Policy.

Due to the enormity of the problem and the limited availability of resources, it is essential that any National Housing Policy be predicated on three major principles:

- **Leveraging** — Using one unit of Government funds to attract other nongovernment resources, such as money, goods, or labor, to produce housing.
- **Family income targeting** — Matching Government subsidies to the needs of families based on their income level.
- **National/local/citizen group institution building** — Identifying and fostering the participation of various interested parties in meeting housing needs. Decentralizing the creation of housing and the implementation of housing programs to the municipal/local/citizen group level, where knowledge of the need and flexibility to act is greatest. Recognizing that resources are not now available at this level to meet the needs of the locale, the Government has also recognized the need to decentralize and is prepared to fund a pilot project. Coordinating, regulating, and overseeing will remain at the national level.

Ideally, National Housing Policy cannot be developed in isolation, but must be combined with land and infrastructure policy. Unfortunately, the necessary data to develop programs and policies based on the above principals do not exist. However, due to the pressing need for affordable housing, the development of a National Housing Policy cannot await this data, but must go forward.

This report presents for discussion the rationale for establishing a National Housing Policy now. In addition, recommendations are made for developing programs that will promote commercial, social, and public/private housing development by leveraging existing Government and private resources, instead of by expending an inordinate percentage of the national budget.

Overview

It is critical to understand from the outset that Albania does not have available to it the financial resources either within Albania or from the outside to solve the country's housing problem. However, Albania can begin to develop policies and programs that over time will address the housing problem. The existing policies, programs, and financial assistance are not sufficient to solve the housing problem.

For example, simply to meet the housing needs of ex-political prisoners and those who will be displaced from the houses restituted to former owners (displaced families, approximately 15,000 families in total), an expenditure in excess of \$225 million would be required. In addition, \$60 million has already been invested in NHA housing. This would be an expenditure of approximately 22 percent of the present \$1.3 billion gross national product (GNP) of Albania. This calculation does not include another approximately 25,000 families on the Homeless List who are not displaced persons. To give these families a housing unit would add an expenditure of approximately \$325 million, raising the overall housing investment to approximately 47 percent of the GNP of Albania, an unacceptable and unrealistic outlay. Furthermore, the above figures are for housing only, and do not include the required investments in water supply, sewage, and electrical infrastructure that will be needed. It should also be noted that in addition to the \$225 million in housing expenditures for ex-political prisoners and displaced persons, \$270 million has already been committed to these groups in voucher assistance. This is approximately 20 percent of GNP devoted to a segment of the population. It is unclear whether this is wise or financially possible.

The reality is that the Government cannot meet the current total needs of affordable housing. This is simply beyond the capability of the national economy and must be recognized. A necessary first step is for the Government to determine how much money it can realistically commit to housing and infrastructure each year for the immediate future, and then to determine what specific programs can be supported within this commitment. In addition, private sector solutions must be explored to focus the vitality and resources currently being directed to the informal/illegal housing sector to the development of formal, properly serviced housing. This way housing can be built with few government resources.

Most countries now face the same problem. They cannot meet housing demand with government resources alone. However, Albania has a limited window of opportunity to meet the rising expectations of the current transition period, has commitments to specific categories of people, and has lower per capita income and public revenues than many countries. Therefore, choices must be made about who benefits from Government expenditures by income, category, or other criteria and in what time priority.

Because of the enormity of the problem and the availability of limited resources, it is essential that any National Housing Policy be predicated on three major principals:

- **Leveraging** — Using one unit of Government funds to attract other nongovernment resources, such as money, goods, or labor, to produce housing.

- **Family income targeting**¹ — Matching Government subsidies to the needs of families based on their income level.
- **National/local/citizen group institution building** — Identifying and fostering the participation of various interested parties in meeting housing needs. Decentralizing the creation of housing and the implementation of housing programs to the municipal/local/citizen group level where knowledge of the need and flexibility to act is greatest. Recognizing that resources are not now available at this level to meet the needs of the locale, the Government has also recognized the need to decentralize and is prepared to fund a pilot project. Coordinating, regulating, and overseeing will remain at the national level.

Moreover, National Housing Policy cannot be developed in isolation, but must be combined with land and infrastructure policy. Otherwise, at a minimum, the present policy will continue to encourage illegal development and will inexorably lead to future major infrastructure investment costs, loss of key agricultural land, planning trouble, and environmental and public health problems.

At present, the necessary data to develop programs and policies based on the above principals do not exist. This is a major road block to rational planning. However, the potential development of this much-needed reliable data by the World Bank and the UNDP is encouraging. Because of the pressing need for affordable housing, the development of a National Housing Policy cannot await the above data, but must go forward independently.

At this time, a critical stumbling block to the immediate development and implementation of a National Housing Policy is the political necessity to first meet, without regard to income, the emergency housing needs of the approximately 15,000 families of ex-political prisoners and displaced persons. The Government position with respect to this issue has been made crystal clear. Its position directly affects the administration of NHA programs. Although the Government's present need to meet this housing emergency is understandable, it nevertheless causes concern, at the very least, because it is a precedent that can have a negative impact on the development of a National Housing Policy. Failure to take into consideration the above-noted fundamental principals will likely cause political and structural road blocks to rational development in the future and continue to make it difficult to meet Government objectives.

Nevertheless, the Government understands at this time the need to immediately formulate a National Housing Policy. The policies and programs should be developed within a climate that explicitly recognizes that there is no one path to be followed. Rather, many different avenues should be explored to determine by experience which is best for Albania. What exists today in Albania is a money gap between the cost of housing and family income. Thus,

¹ Government officials' estimates are that 10 percent of the population can on their own obtain housing in a private market environment, another 20-30 percent are with moderate assistance able to obtain housing in a private/public market environment, and that the remaining 60-70 percent need full or nearly full assistance from the Government to meet their housing needs.

programs need to look at the components of housing cost and determine how the national Government can be of assistance predicated on the above-noted essential principals. Two general comments should be made before proceeding: (1) construction of new housing by the central Government expends the greatest amount of budget dollars while reaching the fewest families; and (2) implementing Government agencies must be involved in the creation of policy to ensure that the policies are realistic and that the staff of the agency will feel a part of the process and thus properly implement the policies.

1 National Housing Agency

The NHA has been the primary tool used by the Government to fulfill its promises about housing.² There are political, legal, and structural road blocks to the NHA performing its assigned role.

1.1 Political Issues

Because of the present housing emergency with respect to ex-political prisoners and displaced persons, the NHA has no choice but to house these families free of payment or, at the very least, at non-economic prices or monthly payments.³ The Emergency Program will be used exclusively to house these emergency groups. In addition, present residents of the World Bank and Parallel Programs will not be evicted for non-payment, nor can they be required to purchase their units. These are the existing political realities. Thus, within the foreseeable future, the World Bank, Parallel, and Emergency Housing programs cannot be looked to as an economic resource for recycling substantial funds to meet the housing needs. It is unlikely that the State Budget plan for the NHA to raise \$13 million from the sale of the units will be achieved. Moreover, because of the names legally provided by the Government, it is clear from an examination of the lists of sales for the Parallel Program that relocated and other highly placed government officials represent a disproportionate percentage of sales. Distribution of NHA units is a political problem no matter what is done, because most of the units are already occupied and no more than 3,000-5,000 can be distributed to the 15,000-40,000 families who have been promised housing.

1.2 Legal Issues

- Most of the apartment units that have been completed or are nearing completion are occupied. It is neither legally practical nor politically expedient to evict the occupants.
- The NHA is without data and authority to challenge the lists provided by the municipalities and the Government.

² Programs administered by the NHA include the following: a) World Bank Program, financed by a loan to the Government for completing buildings started by the Communists, b) Parallel Program, financed by the Government and with loans from domestic banks to finish buildings started by the Communists, and c) Emergency Program, started in 1994 to build new buildings, financed by the Government.

³ Non-economic prices or monthly payments are prices or payments that will not allow for cost recovery.

- There are no deadlines by which municipalities and the Government must present their lists. Thus, the NHA is without authority to sell apartments until the lists are provided.
- Present occupants may not be on the Homeless Lists provided by the municipalities (possibly 50-70 percent of the NHA's units), thus creating a paradoxical situation of not being able to transfer title to the occupants or collect rent from them.
- The NHA is without legal authority after proper notice to a citizen who fails to make an initial payment to sign a contract to offer the same apartment to another citizen.
- The legal requirement that no buyer can pay more than 20 percent of monthly income (30 percent for those who have previously privatized) to amortize the credit results in a non-economic payment. This legal requirement appears to be unenforced in most situations. However, a dangerous precedent is being set where the requirement is not enforced and a non-economic monthly payment is accepted.
- The amount of interest that the NHA can charge is non-economic.

1.3 Structural Issues

- The NHA is not involved in policy-making.
- The NHA's authorization limits it to the construction and sale of housing.
- The NHA cannot construct infrastructure without constructing the units.
- Construction and financing are under the same roof. This is a built-in conflict.
- The NHA can be committed to construct housing without its consent or input.

2 NHA Recommendations

Given the road blocks, especially the immutable housing emergency, and past and present Government commitments and resultant policy, the following recommendations for the NHA programs are as follows.

- End the credit sales program. This program cannot be run in an economically sound manner and will only deepen the financial dilemma of the agency. All credit programs under the auspices of the NHA should be transferred to a financial entity for administration and collection.
- Continue to run the cash sales program, but require changes in the laws and decrees so that pricing is economically realistic to the buyer families (e.g., the price of the unit will be the present value of the unit discounted at the current savings rate of 10 percent over 25 years).
- With respect to present occupants in the World Bank and Parallel Program units, do not transfer title unless the units are purchased.
- With respect to the World Bank units, the loan and project agreements should be altered to reflect the above changes and to reflect a new government policy that would provide purchase vouchers to qualified buyers at a price that would allow for reasonable cost recovery and would rationalize budget support by creating transparent subsidies. Moreover, this new policy would further social equity with respect to housing.

- The legal road blocks noted above should be eliminated and programs and policies should be developed to transfer the implementation of the goals of the NHA to the local governments. At the national level, the NHA should, through regulation and oversight, clarify the parameters within which decentralized implementation should take place. The resources and capability to achieve this goal should be developed quickly so that responsibility for identifying needs (for example, through the maintenance of the Homeless List) and delivering housing are joined.
- Give the NHA a major role in the development of National Housing Policy and the necessary powers to implement a broad array of programs (e.g., from housing allowances to the purchase of existing units).
- The NHA should not be constructing housing on its own, but rather should facilitate and encourage the leveraging of available government funds with other funds or in-kind contributions for the development of housing.
- The NHA should develop technical assistance and training programs for local government and citizen groups to participate in the production of housing.

3 Policies and Programs

It is worth reiterating that there is no one Housing Program path that should be followed. Rather, many different avenues should be explored by developing pilot programs and the resulting successes or failures will determine what is best for Albania. The essential principals noted above will be applied in developing policies and programs. Moreover, rental, as well as ownership, opportunities need to be explored.

3.1 Commercial Housing

For those who presently can afford their own housing and for those who may be able to afford their own housing in the future, it is essential that the Government provide the legal, political, and structural foundation to encourage private market development. There are two stages in this development. The first is providing a climate of stability, uniformity, clarity of procedures, and certainty of rights.

In this first stage, much of the Government implementation activity has to do with land and infrastructure planning and regulation. It is essential that the recommendations contained in the 25 March 1995 AID report entitled "Tirana Land Management Program - Legal, Institutional, and Financial Issues" be adopted immediately by the Government. Commercial housing will not flourish until the land issues are resolved; this is especially true of the restitution issue. Concurrently with adoption of land reform, assurance of infrastructure is needed. This assurance is necessary not only from an environmental and marketing point of view, but also from a pay-for-service perspective. Necessary controls and regulations must be put in place and enforced. During this first stage, Government must also provide with respect to housing *per se* the necessary legal and regulatory framework to assure certainty, stability, and uniformity of treatment. For instance, mechanisms must be developed to assure an enforceable right to payment or, when there is no payment, control of the asset. Thus,

realistic eviction and/or foreclosure procedures need to be adopted. Clear procedures for obtaining and registering title need to be in place. Any confusion with respect to title will delay transition to the private market. Development of a single pamphlet detailing all of the legal and planning/application steps and approvals for development is required. These are necessary preconditions for the development of a private housing market. Only after this framework is in place and accepted can the second stage commence.

This second stage consists of the development of private housing finance mechanisms and institutions. In this regard, it would be premature at this time to outline programs and policies.

3.2 Social and Public/Private Housing

As noted earlier, especially in this area, policies and programs are aimed at lessening and, hopefully, eliminating the gap between the cost of housing and family income. Depending on the family's income, a public/private partnership or a social housing approach may be needed. The Public/Private Partnership approach usually requires some Government subsidy, but the subsidy here is used as an incentive to enlist the private sector or citizens themselves to contribute to the building of housing. This contribution can be financial, in-kind, or self-help. The Government needs to leverage its financial contribution while at the same time encouraging the institutionalization of citizen group and local government resources.

The Government subsidy can be directed to the individual family, a cooperative of families, or to the project itself. These subsidies can be used either in a rental or an ownership program. Most often, the form of housing will be dictated by the income level of the family. Usually, a set amount of Government subsidy can assist more families in a rental situation. Again, it should be noted that construction of new housing by the Government is the least cost-effective utilization of limited resources.

Some pilot programs that could be started are as follows:

- **Self-help.** Either where a family has its own land or where the land is provided by the Government, the family would provide labor and the Government would provide technical assistance and materials to build the housing. The Government, because of its bulk purchasing power, could provide building materials at a lower cost. Of course, the Government would provide infrastructure. In addition to the family's own labor, cash payments should be required based on family income. This program would harness the vitality of the current private sector construction activity and might also be used in conjunction with an illegal housing discouragement project in a specific area, such as Kamsa.
- **Housing Allowance.** A subsidy voucher for a specific lek amount to be used only for rental housing would be given directly to qualified families. These families would find their own housing in the market place and the voucher would be returned to the Government for payment. What percentage of income they would spend, how large an apartment they would obtain, or whether they wished to couple their own financial resources with the subsidy would be their decision. However, regulations to prevent abuse and assure

decent living conditions would have to be promulgated. This program could be used immediately to assist the displaced families.

- **Purchase Assistance Fund.** The national Government, together with local government, could give a "seed" subsidy to be used for the purchase of a housing unit. The local government would be required to match or contribute a percentage of the national Government subsidy.
- **Government Purchase of Existing Units.** For families with very low income, it may be cheaper for the Government to purchase existing units than to construct them. A pilot project to test the reality of this assumption is desirable, and could be used for the emergency groups, ex-political prisoners, and displaced families.
- **Targeting Citizen Group Projects.** Organizations, such as PAPP, are already in the business of providing housing. They have raised monies from outside of Albania. It makes sense to leverage these funds with Government subsidies. Other such organizational endeavors should be identified and encouraged.

The above-noted programs are suggestions for implementation in the immediate future. Once the necessary actions are taken to encourage private finance and soft loans from foreign donors, then many other loan-based programs can be instituted. These programs would allow for other leveraging mechanisms, such as loan guarantees and formal interest rate subsidies. But this is the future. At this time, the necessary preconditions for credit programs, private or governmental, do not exist.

3.3 Follow-Up Activity

As suggested by Mr. Manushi, Advisor to the Prime Minister, a working Task Force including the Minister of Construction, the Advisors to the President and Prime Minister, the Director of the National Housing Agency, the Director of the Housing Department of the Ministry of Construction, and the Director of Planning and Territorial Adjustment, should be constituted. This Task Force would develop and implement the National Housing Policy and Programs, including revision of the mandate of the NHA. USAID would be interested in providing continued assistance provided that there is a clear commitment to follow through by the Government and the product is well defined. This would include advice and support to the Task Force.