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# Building Partnerships for Social Housing: Growing Housing Needs and Effective Solutions for Albanian Cities

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**Abstract:** *Partnerships have a long history in European social housing with a mixed degree of success. They are an emerging model in post-socialist countries driven by budgetary constraints, rapid privatisation of public housing, and pragmatic efforts to respond to a complex housing affordability crisis. This article evaluates the challenges and opportunities of a new partnership model implemented in Albania to provide social rental housing. The project, launched in 2009, involves a legally defined partnership between central and local governments, the private sector, and an international financial institution. It has doubled the amount of municipal rental housing, addressing the needs of low- and mid-income households in Albania through the construction of 1,138 rental apartments for 4,300 people in eight cities. The allocation process, although politically charged, has been targeted. The partnership has capitalised on efficiencies, sound fiscal management, and cost and quality control. Despite some construction delays and potential concerns related to future sustainability, we argue that the partnership model is effective and has an important learning and innovation role for the future provision of social housing in Albania as well as in other post-socialist countries in South-East Europe facing similar challenges.*

**Keywords:** partnerships; cities; Albania; social rental housing.

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## Introduction and Approach

Partnerships (design, build, finance, operate) have a long history in European social housing with a mixed degree of success (Scanlon, Whitehead, Arrigoitia 2014). A public–private partnership is a cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks, and rewards (CMHC 1998). The engagement of the non-profit sector (own and operate) often changes the nature of the partnership to multi-sectoral collaboration, making this cooperative pursuit much more complicated and predicated on the shared objectives, risks, and authority connected with the project. The spectrum is classified into four categories; consultative arrangements, contributing partnerships, operational partnerships, and true collaboration (Boase 2000). A partnership project can be defined as any combination of the operational elements: design, build, finance, operate, maintain, own, transfer, lease, develop, and buy (Allan 2001). Notwithstanding this complexity, partnerships are an emerging model in post-socialist countries, where the role of the public sector is still particularly important, but the design and build components are often contracted out to private sector firms. While it is assumed that all levels of government cooperate in the promotion, financing, and management process, this is not necessarily the case. In fact, in many post-socialist countries' recent social housing programmes have been influenced by the socialist legacy of centrally designed and managed initiatives with a 'top down' approach to municipal involvement (Tsenkova 2013). Few countries have experimented with partnerships engaging the non-profit sector in new social housing provision, which has been subject to privatisation (Lux, Sunega 2014). In most cases the small additions to the social housing sector in the aftermath of mass privatisation have reinforced a dependency on ongoing public sector construction and operational subsidies. While the affordability crisis has grown, in cases when both supply- and demand-side subsidies are downloaded to lower levels of government (municipalities), the ability to maintain the quality and sustainability of social housing is very limited. These considerations are particularly important for the evaluation of social housing projects (Scanlon, Whitehead, Arrigoitia 2014).

This article analyses a project for new social housing in Albania, implemented through a partnership model supported by the Council of Europe Development Bank (CEB). The project involves a legally defined partnership between national and local governments, the private sector, and an international financial institution. It has created municipal social rental housing, addressing the needs of low- and mid-income households in Albania through the construction of 1,138 rental apartments for 4,300 people. We use the framework for project design, monitoring, and evaluation adopted by CEB to present important results in this project (see Tsenkova 2013). Key elements of the evaluation centre on the **relevance, effectiveness and efficiency** of the social housing project. The analysis in the article explores these issues focusing on criteria such as institutional arrangements, objectives, financial and technical aspects in the production/delivery of social housing, and the results achieved relating to the process of allocation (targeting, social mix) and operation (maintenance of housing quality, affordability of rents, management). The efficiency and effectiveness of social housing projects is particularly difficult to reconstruct due to the extensive engagement of many institutions and the complicated nature of housing policy instruments—fiscal, financial, and regulatory (for a discussion of these issues, see Angel 2000). Related to the complex nature of social housing,

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benefiting a variety of social groups, the sustainability of partnerships in institutional and socio-economic terms is even much more challenging to evaluate.

In the analysis of the social housing project we focus on relevance: the appropriateness of objectives, institutional arrangements, and the quality of the project design. The effectiveness is measured by the achievement of project objectives using criteria such as the number of dwellings built, the number of eligible households accommodated, housing quality, and targeted allocation. The efficiency is important as it relates to achieving objectives with the optimal use of resources; we look into costs, procurement arrangements, schedule, and cost variances (see Tsenkova 2013).

The methodology is based on a review of project documents, housing policy briefs, monitoring reports, field observations and February 2017 survey data to present outcomes achieved. The article starts with an analysis of the economic and social context for social housing in Albanian cities, and evaluates housing policy developments to provide a good understanding of the social housing context. The analysis of the partnership model and the implementation of the social housing project in eight cities across Albania is organised in three sections: relevance, efficiency, and effectiveness.

## Evaluation of Housing Policy Developments: The Context for Social Housing

After 1991 the Albanian government followed a model of shock therapy and radical reforms. Economic restructuring, the mass privatisation of small and medium enterprises, and the deregulation of markets left thousands of people jobless. By the mid-1990s more than 700,000 people had left the country. While Albania had what was often referred to as one of the most controlled economies under state socialism, in the early 1990s the country's large rural population rapidly migrated to cities in search of economic opportunities. Despite a fluctuating macroeconomic performance in the past, growth prospects since the global financial crisis have worsened due to declining foreign investment and economic challenges. GDP per capita reached 3,439 EUR in 2017, leaving the country in the group of the poorest European nations. The global financial crisis, as well as low economic growth since 2008, increased poverty rates from 12.8% in 2008 to 14.3% in 2012 (INSTAT and the World Bank 2015).

Notwithstanding progress in structural reforms, weak public and private institutions and corruption have the effect of limiting the growth potential in the housing sector and fuel informality (World Bank Group 2015). On the fiscal front, revenue administration remains weak, which threatens fiscal sustainability and reduces the government's capacity to finance housing programmes. Overall, the context of social housing is more challenged than in other post-socialist countries (see Tsenkova 2009).

Housing reforms in Albania consisted of the privatisation of state housing and construction enterprises and the reduction of fiscal subsidies to the housing sector. The privatisation of state/enterprise housing to sitting tenants at symbolic prices had a significant impact in urban

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areas, where it accounted for 96% of the stock.[1] Government programmes were aimed at providing housing to 'homeless' families through housing schemes managed by the National Housing Agency (NHA), established in 1992.[2] A World Bank loan assisted in completing the construction of unfinished public housing—close to 13,300 units—mostly in urban areas. Housing construction became the major contributor to the country's GDP; however, due to a lack of institutional capacity to manage the rapid urbanisation and the *laisser-faire* attitude towards the private sector, 80–90% of new housing built after 1990 was developed informally (Tsenkova 2005).

For the most part there exists basic legislation on real estate transactions, pledge, cadastre registration, landlord/tenant relations, condominiums and restitution, but effective implementation is lacking.[3] In the absence of social housing and assistance to cover growing housing costs, people migrating to the cities continue to seek housing in the informal sector. This large scale 'exit' from the formal housing system that was established in the early 1990s has left a strong legacy of informal settlements, which has doubled the area of Tirana and Durres (Tsenkova 2014, 2013).

Government support for housing in the last 20 years has been provided in the form of housing subsidies for soft loans granted to households, in most cases for the purchase of housing built by the NHA. Figure 1 illustrates the dramatic decline in state housing support since 1995, when the disbursement of the World Bank loan reached its peak.[4] The increase of funding in 2009 is attributed to the disbursement of the CEB loan for new social rental housing. The NHA has used state budget funds and proceeds from the World Bank loan to build new housing on land provided by municipalities. All of these projects support homeownership, where beneficiaries, regardless of their income, pay back the cost of their housing over 15-20 years at an interest rate of 0-3%. Between 1993 and 2016, approximately 20,000 families were housed through state support. Social rental housing is the only programme that has a fair amount of targeting and is the focus of this study.

[1] The government devoted about 1.3% of GDP to subsidising the supply of rental dwellings, but the return on investment was negative because the rent charges couldn't cover the operating costs. Housing was considered a social obligation towards the workers and urban inhabitants.

[2] Following the completion of housing privatisation, Albanian municipalities created lists of families in need of housing that could benefit from state-financed programmes. In 1998 these lists included 46,149 'homeless' households.

[3] For an in-depth overview of housing reforms in Albania, see Tsenkova (2005) *Trends and Progress in Housing Reforms in South East Europe*, and also UNECE (2002) *Country Profiles on the Housing Sector – Albania*.

[4] For more information, refer to the UNDP (2014) report.

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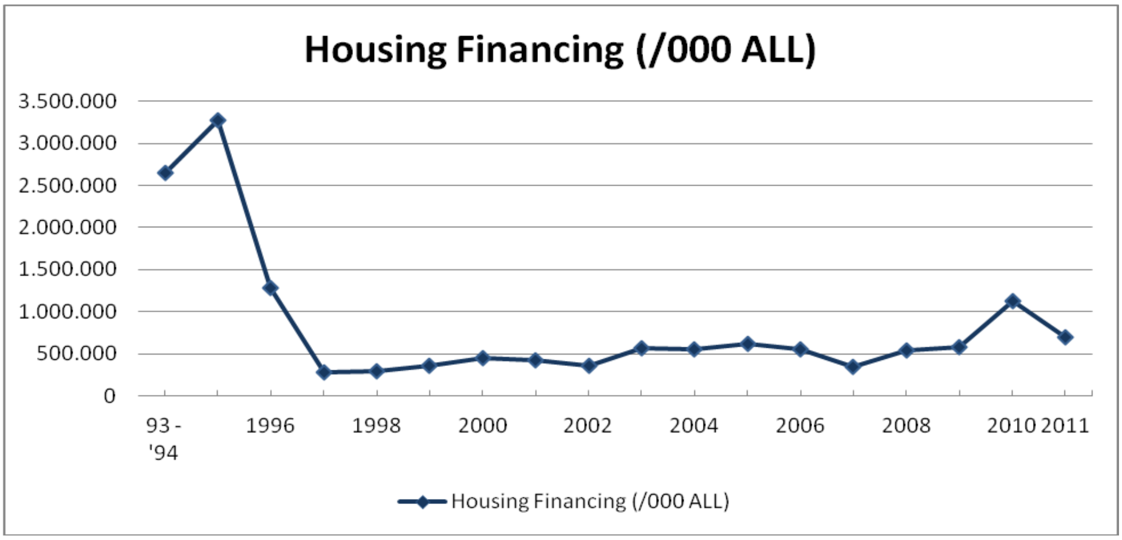
**Figure 1: Financing for housing programs (1993-2011)**




*Source: Authors' data adapted from UNDP, 2014*

Despite some limitations, official data indicate that there are imbalances in the housing market. The housing stock in Albania grew by 58% during the twenty-year transition from 219 dwellings per 1,000 inhabitants in 1989[5] to 347 dwellings per 1,000 inhabitants in 2011. The shortage of affordable housing in large urban areas is estimated at 100,000 dwellings. A high vacancy rate of 22% coupled with overcrowding of the urban poor are also signs of housing market imbalances.[6] The mass privatisation of public housing has resulted in high rates of homeownership in the country (93.5%). The state-owned rental housing accounts for 0.2% of the total housing stock—a significant shift from 35% in 1989. Increasing housing market activity accompanied by higher lending in 2008 left Albanian banks somewhat vulnerable to the global financial crisis, as housing was used as collateral for business loans. In 2017 housing loans made up 66% of all lending to private individuals. But the slow development of mortgage markets, conservative lending practices, and the high share of informal housing has limited such exposure and the formation of a 'housing bubble' (Suljoti et al. 2017).

Local governments are expected to play a critical role in the provision of social housing and housing allowances. The *Act on Social Housing (2004)* aims to enhance the capacity of municipalities to manage the design, implementation, delivery, and maintenance of housing services to socially disadvantaged households. However, the consolidation of fiscal authority at the level of central government means that the instruments available to local governments are more limited. Revenues from local government resources are weak, and national rules determine most municipal income and expenditure patterns and impose limits on municipal borrowing and capital investment.[7] Albania was administratively divided into 374 communes/municipalities until 2015, recently these administrative units have been

[5] UNECE (2002) *Country Profile on the Housing Sector*, Albania.
[6] According to the 2011 CENSUS, less than 6% of households live in a rental apartment and there is extreme overcrowding (dwellings with 3 or more occupants per room) in 3.74% of the housing stock.
[7] Small business tax and residential property tax are sources of own local government revenue; at the high end Tirana derives 80% of its revenue from its own sources, while in smaller municipalities this share is lower than15%.

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consolidated into 61 municipalities (*bashkia*) to address problems of territorial fragmentation and inefficiencies in service provision. Albanian municipalities lack sufficient budget revenues to fulfil their mandate.[8]

## The Social Rental Housing Project: A Partnership Model

### Relevance

With respect to relevance the analysis focuses on the appropriateness of project objectives, institutional and financial arrangements, and the quality of project design. Within the context of growing affordability for the urban poor and housing privatisation, this project was the first attempt to respond to multiple challenges through coordinated investment in social rental housing. It allowed the implementation of the *Act on Social Housing Programmes* (2004) and its provisions for rental housing targeting vulnerable groups of the population in Albania. The project employs a partnership model, which acknowledges the strengths of each institution, its legally defined responsibilities, and ability to dedicate resources. The involvement of the CEB required a legally binding agreement, approved by Parliament, to secure the sovereign loan.

The partnership is relatively simple: it involves an international financial institution, national and local governments (finance, procure, operate), and private industry (design and build). It was explicitly defined at the planning stage on the basis of clearly defined public needs and with the appropriate allocation of resources, risks, and rewards. Implementation was predicated on compatible objectives and shared risks and authority, where local governments take the lead with respect to project management and the allocation and ownership of social housing assets.

#### *Institutional Framework*

*National government:* The implementation, management, financial coordination, auditing and supervision of the project were carried out by a Project Implementation Unit (PIU) under the auspices of the Ministry of Public Works, Tourism and Construction. The PIU at the central level was responsible for supervising the execution of projects in participating municipalities. Staff visited the project sites periodically, reviewed progress in construction (work schedule), and authorised corresponding loan disbursements.

*Local government:* Participating municipalities: i) provided the necessary construction sites for social rental housing free of charge; ii) ensured that planning and building permits were issued in a timely fashion, iii) funded technical infrastructure (water, sewers, electricity, roads) on project sites through local governments' capital investment programmes; iv) contributed financially to the construction costs of apartments; v) committed to the repayment of the loan, without interest; and vi) committed to effectively managing the social rental housing for a period of 10 years. At the local level, municipalities established PIUs that were responsible for

[8] The *Act on Social Assistance* (2005) sets out the method for calculating social assistance at the municipal level. The maximum amount per family is 70 USD per month. By comparison, the minimum wage per month/person is 12,000 ALL, set by a Government Decree (approximately 120 USD). At present, 20% of Albanian families receive social assistance and half of them are in urban areas.

procurement procedures, standard bidding documents, and administration of the construction process. These units prior to completion and transfer of the social housing were transformed into maintenance and management units (e.g. in Korca and Berat) (CEB 2013).

*Private firms:* The design and construction process was carried out by private firms using Project Procurement Guidelines. The PIUs managed the tender process with controlled costs, contracted selected the firms to carry out the construction process and the design firms to develop all the necessary documentation for planning authorisation, the approval of site plans, the environmental impact assessment, building permits, and technical drawings in compliance with the current seismic resistance constriction norms.

### *Financial Framework*

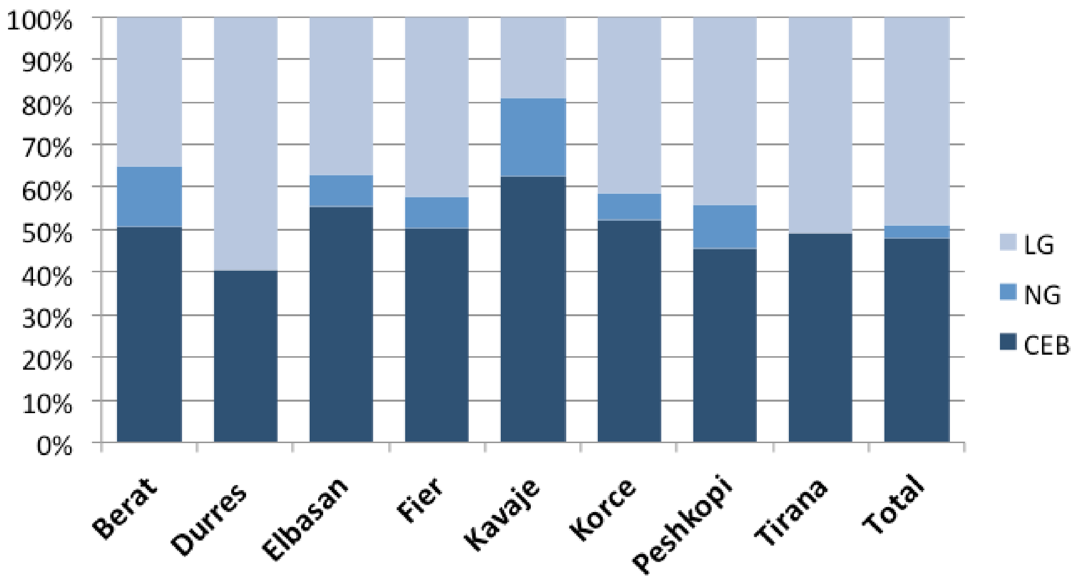
The Government of Albania financed the project with a state loan of 15 million EUR from the Council of Europe Development Bank (CEB), representing half of the housing development costs. The financial contributions of different levels of government were explicitly defined in agreements between the Minister of Finance and the mayors of participating municipalities. The financing of housing development costs in each municipality is presented in Figure 2. The following contributions were maintained (CEB 2013):
*The national government:*

- Represented the primary investor and the borrower of the CEB funds, providing state guarantees;
- Covered the interest of the loan;
- Coordinated municipal contributions (cash and in-kind) to the Project;
- Covered VAT on construction costs (20%);
- Provided additional financing (through conditional transfers) to participating small local governments. The amount of this transfer varied depending on the fiscal position of the local government and their own source revenue (ranging from 5 to 20%).

*Local governments:*

- Provided land, site preparation, and on-site infrastructure (20-50% of housing development costs) within the framework of a sub-loan agreement with the central government;
- Waved infrastructure improvement taxes – 4% of the construction costs;
- Provided an exemption from local government taxes (0.5% of construction costs/year).

**Figure 2: Sources of financing for the development costs of each municipality**




Note: 1. Development costs include: design, construction costs, land and infrastructure, site preparation; project administration; 2. LG-local government; NG – national government; CEB – Council of Europe Development Bank.
*Source: Authors' estimates based on project documentation.*

The new model for the provision, allocation, and management of social housing by municipalities made possible the implementation of a pilot project that resulted in the construction of 1,130 apartments in major urban centres. The relevance was high and the project design maximised the benefits of partnership involvement. The project was a radical departure from the previous mode of housing provision administered by the NHA. The distinctive difference in terms of the ownership, management, and allocation of housing was the different approach used, where participating municipalities were active agents in the process and the land value was considered an integral part of the development costs. It had an important innovative role and established a viable model for collaboration between central and local governments for the provision of rental housing for socially vulnerable groups in Albania.

## Effectiveness

Effectiveness is analysed with respect to the achievement of project objectives, which is determined using criteria such as the number of dwellings built, the number of eligible households accommodated, the quality of the housing, and the utilisation of the funds. The first tranche of the CEB loan was disbursed in November 2008. The disbursements were timely and on schedule, with over 70% of the projects completed on time and within budget. The earmarked local government contributions, specified in the sub-loan agreements with the central government, were allocated in a timely fashion, except in Durres (CEB 2013). Despite these positive results, the implementation of the project faced a number of challenges, including: i) limited local government capacity and know-how with respect to the management of the housing development cycle; ii) a lack of adequate standards for construction, procurement, and supervision; iii) difficulties in managing different sources of financing—the

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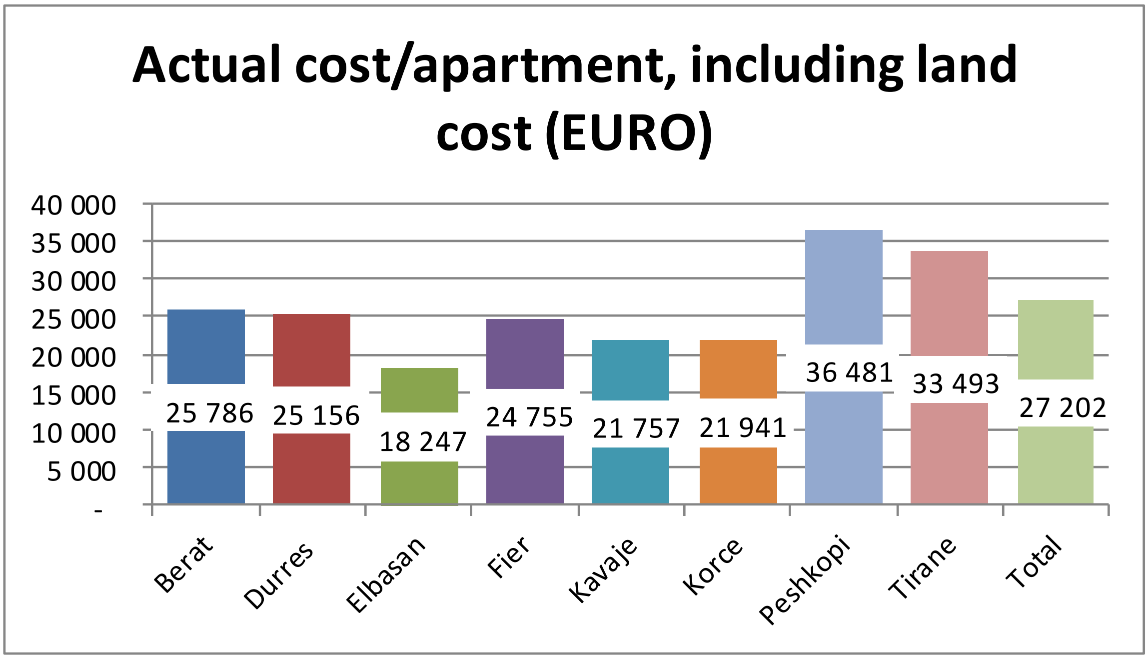
loan (disbursed in EUR in each PIU account), national budget transfers for local costs, and municipal budget allocation.

The projects in the eight cities met their targets in terms of the number of units built and households accommodated. Tirana and Durres exceeded these targets and used the opportunity to leverage their own resources to provide a higher number of social housing apartments. Figure 3 shows the average development cost per apartment in the eight cities. Berat was the first municipality to complete the social housing project, in 2011, and was left with some savings from the CEB loan, and these were redistributed to Tirana. It was followed by Peshkopi municipality that had the smallest project of 24 dwellings. The last to finalise the construction was Durres municipality, which is still working to complete the construction of a total of 342 dwellings.[9] The types of buildings varied from one location to another. The typical building included 24-30 dwellings, was six storeys high (with no elevator, in conformity with national standards). The typical unit sizes were: i) one bedroom plus living room and kitchen in a unit with 47 $m^2$ usable floor area (65 $m^2$ gross built-up area); ii) two bedrooms plus living room and kitchen in a unit with 62 $m^2$ usable floor area (82 $m^2$ gross built-up area). The apartment buildings are built with bricks and concrete slabs and incorporate ground-level commercial spaces that can be rented for profit by the municipality.

**Figure 3: Development costs per apartment in each municipality**




*Source: Authors' estimates based on Project documentation, 2009-2013.*

[9] In Durres, 126 apartments were completed in 2012, 128 in 2014, and the remaining 88 apartments in 2017.

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**Figure 4: New social housing in Fier**

*Source: Authors' field work.*

Social rental housing was allocated in accordance with the *Act on Social Housing* of 2004 and Decree No. 53/2005. The regulations state that an applicant's income should not exceed 75% of the national average; prospective tenants should be able to pay 4% of the construction costs annually, provided that the monthly payment does not exceed 25% of their gross income. In the absence of a well-functioning social assistance and housing allowances, these conditions were necessary for the sound financial management of social rental units.[10] Since the criteria were broadly defined in the legislation, a Feasibility Study established a scoring system which took into account: i) applicant's present housing conditions, ii) household size, iii) average per capita household income, and iv) other priority criteria (CEB 2009).

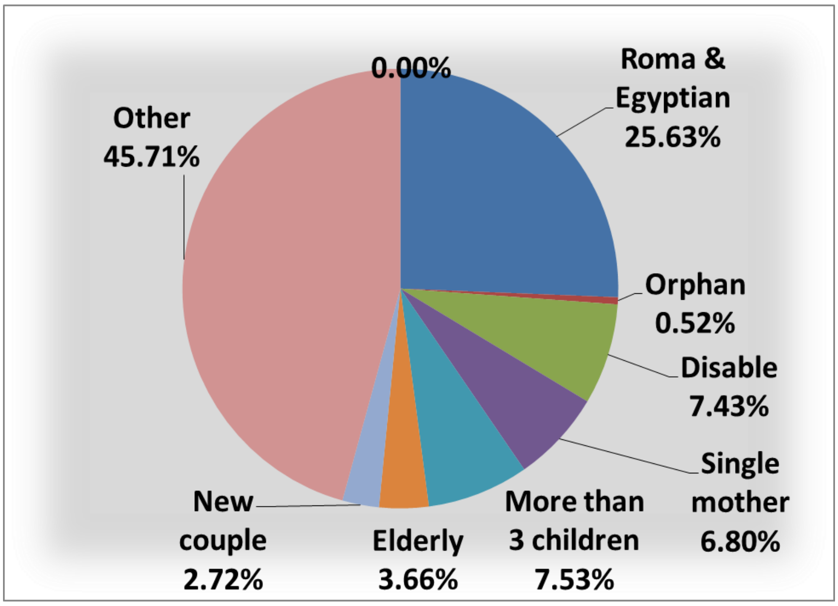
The allocation of social housing was affected by local politics. Berat was the first municipality to rent housing to 48 families, providing also a reasonable mix of different groups. Korca finalised the construction in 2010, but allocated the social housing after the local elections in 2013. Durres and Tirana—with the largest share of social housing—moved forward with the allocation of apartments in 2014.[11] While it is difficult to explain the dynamics of local politics, given the high need for social rental housing, some mayors (Korca and Kavaja) were reluctant to act before the elections. In the large cities (Tirana and Durres) the number of social housing

[10] *Act No. 9232/2004* states that after the payment of rent family income should not be below the level of economic assistance, which in 2010 was 7,800 ALL per family.
[11] Durres allocated the 254 finished apartments in 2014; Tirana also allocated a portion of its apartments in 2015 and the remaining 177 in July 2016.

beneficiaries was very small compared to the number of applicants and it was politically challenging to prioritise certain groups (Interview data 2017).

Municipalities followed the legal requirements for selecting beneficiaries and prioritising categories in the scoring system. Figure 5 presents our survey results. One-quarter of the beneficiary families are Roma and Egyptian communities, followed by families with many children, families with a disabled person, and single-parent families. The ‘other’ category refers to families with income below the specified limits that do not have a home or that live in an overcrowded apartment. The data indicate that the average monthly income is 36,000 ALL (288 EUR), while the average monthly rent is 7,350 ALL (approx. 55 EUR). Families in Tirana pay the highest rent, and they pay the lowest in Korca, but the amount is not greater than 25% of family income. The rent is calculated based on the cost of construction. The rent levels per square metre across the eight cities are below market levels for comparable units.[12]

**Figure 5: Tenants of new social rental housing**




*Source: Authors’ estimates based on survey results, 2017*

## Efficiency

The efficiency of the social housing project is particularly important as it evaluates the achievement of objectives with optimal use of resources. The sub-criteria used were cost efficiency, procurement arrangements, schedule, cost variances, and fiscal management.

### *Costs*

Surprisingly, the technical issues—procurement, cost control, and the management of the construction process—were challenging, but the construction period was never longer than 24-

[12] Monthly rent for a studio in Berat is 5,225 ALL (39 Euro) and for a one-bedroom apartment it is 6,994 ALL (51 EUR). In Korca monthly rent for a studio is 3,800 ALL and for a one-bedroom apartment it is 6,000 ALL.

30 months (in larger projects). The partnership with private firms resulted in good quality design, planning, and construction at below market levels. The variance in local development costs was significant, mostly due to land costs, with some of the highest costs per apartment of 33,493 EUR and 36,000 EUR in Tirana and Peshkopi. This affected rent levels, set at 4% of these costs per year. Economies of scale kept development costs in the other municipalities within a reasonable range, while in Tirana the environmental remediation of a brownfield site added a significant premium to the cost. Good planning and monitoring resulted in negligible differences between the project's planned and final development costs. An increase of 5% was foreseen as contingency and it covered the depreciation of the Albanian currency during the project implementation phase (CEB 2013).

Sound fiscal management, critical for maintenance and loan repayment, is challenging for municipalities. Our survey revealed that households paid the full cost-recovery rent, but in a couple of municipalities this share was down to 93% and 56%. Five municipalities have started to repay the loan. The agreement between the Minister of Finance and mayors stipulates that if municipalities fail to comply, payments will be deducted from the unconditional grant transferred by the state budget to the municipalities. The yearly amount of loan repayment varies from 34,000 EUR for Korca and Elbasan to 100,000 EUR for Durres. The introduction of a well-functioning system of housing allowances with the active involvement of the central government will be critical for the long-term viability of social rental housing and its much needed development and growth. A housing allowance system could alleviate short-term problems with rent payment that families may have and it could continue to ensure cost-recovery. Moving forward, municipalities need to maintain the good quality of the social rental housing and its social mix, avoiding segregation.

## Concluding Comments

Despite the impact of fiscal austerity after the global financial crisis, this new project, based on partnerships between central and local government and private sector firms, presents a viable model for new social housing provision in Albania. The project was highly relevant and has provided municipal rental housing within three years to address the housing needs of low- and mid-income households. The construction of 1,138 rental apartments for 4,300 people in eight cities exceeded the project targets through a model that leveraged the opportunities of each level of government to make a transparent and efficient financial contribution. The institutional and financial frameworks emphasised sound fiscal management and cost-recovery and ensured targeted allocation. The project was effective and played an important role in institutional development by building capacity at the municipal level, while controlling private sector involvement in the design and building process through sound procurement and disbursement procedures. Despite these positive results, the implementation faced a number of challenges, including: i) limited local government capacities and knowledge regarding the management of the housing development cycle; ii) lack of adequate standards for construction, procurement, and supervision. The allocation was targeted and all the municipalities are interested in replicating this practice owing to its strong social impact. Clearly the model does not offer a universal solution to housing affordability challenges in all the municipalities, and its efficiency could be improved, but it has set the stage for fiscally and socially responsive partnership. It is a radical departure from the state rental provision that existed during state socialism in Albania

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and from the state-supported access to low-cost homeownership administered in the last two decades.

New social housing in most countries is developed with some form of partnership within the public sector itself, and depending on the policy context and the history of social housing may engage public, private, and non-profit agents and institutions (Tsenkova, 2009). While this might be the future, it is particularly challenging to initiate this model of collaboration in the aftermath of the global financial crisis of 2008 in post-socialist countries where governments have shifted their support to homeownerships rather than social housing. In this case, the partnership model is based on the strong engagement of the national and local governments and targeted fiscal support to reduce the cost of new housing. Replication of the model will be affected by budgetary constraints and austerity measures that restrict government borrowing. The global financial crisis had a more limited effect on the leading institutions relating to housing in Albania, owing to the fairly underdeveloped mortgage market, but it did affect equity financing in the sector and the ability of local and national governments to raise revenue through taxes. Once the economic climate improves and fiscal austerity measures allow borrowing by the national government, the model can be replicated. The sovereign loan was crucial in securing the low-cost, long-term financing essential for capital-intensive projects. National government can leverage additional support through grants and tax cuts, but in Albania social housing needs to be a priority. The municipalities can continue to ‘learn by doing’ and ensure repayment by carefully managing rents and housing allowances. While the partnership models implemented so far can be adapted and used in a different form to eliminate the sovereign guaranty, it may require a strong non-profit institution to partner with municipalities and take on the role of a social housing provider. Local banks can perform the role of international financial institutions by creating a syndicate loan, but this implies more robust institutions, and certainly adequate demand-based support for social housing.

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