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**FOLLOW-UP TO THE COUNTRY PROFILE ON THE  
HOUSING SECTOR – ALBANIA**

**Workshop Report**

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## Introduction

1. The follow-up workshop to the Country Profile on the Housing Sector – Albania (ECE/HBP/130) was organized in Tirana, from 16 to 17 February 2004 at the invitation of the Ministry of Territorial Development Planning and Tourism. The workshop aimed at reviewing the developments in the housing sector and the implementation of the Country Profile's recommendations. It also served to launch the Country Profile in Albanian. It was held with financial support from the Government of the Netherlands.
2. The Country Profile on the Housing Sector in Albania was undertaken at the request of the Ministry of Territorial Development and Tourism followed by the decision of the UNECE Committee on Human Settlements in September 2001. An international team of experts was established and undertook a research mission to Albania in February 2002 in close cooperation with the Ministry. At the 64<sup>th</sup> session of the Committee on Human Settlements, the Ministry reported that the review's conclusions and recommendations had already proved useful in the further development of Albania's housing policy. Among other things a law on programmes for social housing and on condominiums were being drafted, and a pilot project on condominiums and a proposal on cooperation with the private banking sector for the provision of affordable loans were being worked out. Furthermore, an agency for the legalization of illegal housing was being established. The Ministry further informed the Committee that the Profile was being translated into Albanian and that there was a need to hold a follow-up workshop in order to launch the study and involve all stakeholders in the implementation.
3. The workshop gathered a large number of participants, representatives of local stakeholders, including relevant ministries and State institutions, local authorities and their associations, non-governmental organizations, and the private sector, including banks, as well as representatives of international organizations active in Albania, such as the Stability Pact, the United States Agency for International Development (USAID), and CHF International. The workshop was facilitated by some of the international experts who had carried out the study, invited experts from UNECE countries and the UNECE secretariat.
4. Participants discussed the priorities and goals to be achieved on the basis of the recommendations of the Country Profile and the recent programmes drawn up by the Ministry in three areas: social housing, housing condominiums and housing finance. They further intended to identify those areas where training and further assistance were needed.
5. At the opening of the workshop, Mr. Arben Demeti, Vice Minister for Territorial Development and Tourism, pointed out that housing reform was a continuing process, as Albania struggled with poor housing, low incomes and the prevailing mentality that the State should provide everything. Facing many challenges and financial limitations, the Government aimed to effectively use the budget by carefully targeting resources based on needs, and working with the private sector where appropriate. Local government was not yet ready to take on housing functions, but it would in future have to focus on capacity-building, carry out studies for new residential areas, make the permit process more efficient and transparent, and increase housing supply. The Ministry requested support from international agencies, noted the key role of UNECE and wished to achieve synergy through a housing network.

6. Mr. van der Horst, Deputy Head of Mission, stated that the Embassy of the Netherlands in Tirana would continue to support activities related to urban management and housing-related issues, noting the rapid population changes in Albania and its effects on the housing sector and on social cohesion.

7. Ms. Christina von Schweinichen, Deputy Director of the UNECE Environment and Human Settlements Division, commended the Ministry for organizing the follow-up workshop, involving all stakeholders in a round-table discussion on the future activities in the housing sphere, including the application of new laws. She stressed that it was only through concrete policies and concerted actions that the recommendations of the Country Profiles could be implemented and progress made.

## **I. THE 2002 COUNTRY PROFILE ON THE HOUSING SECTOR IN ALBANIA**

### **A. Main findings of the Country Profile**

8. The Country Profile was produced following a mission in February 2002. The team of experts found the timing of the project propitious, as the Government of Albania had adopted a Housing Strategy Action Plan in 2001. The study looked in depth at the framework for housing change, the housing market, and the way in which institutions, the legal system and the finance system affected housing provision.

9. Housing provision in Albania had moved rapidly from a centrally planned approach to a free market with minimal public control. In a volatile economy the country was experiencing problems of growth and at the same time problems of decline. During these changes government housing policy had been active, but with little long-term vision.

10. Although there had been provision for those households in the homeless category, defined mostly as those who had not benefited from housing privatization, problems such as a lack of affordable housing and the widespread informal development of housing had not been fully addressed. As a result of privatization, virtually all of the housing stock became privately owned and instead of the old State sector there was a new commercial construction sector, catering mainly for those able to pay market prices.

11. The roles of the country's housing-related institutions were poorly developed and there was no coordinated approach. This was especially noticeable at local level, where the policy of decentralization to local government, although offering a potential for developing housing, had not progressed. The achievements of the National Housing Agency, set up in 1993, had fallen short of expectations.

12. In addition, the lack of respect for the rule of law and weaknesses in legislation, such as that concerning condominiums and restitution, were among the main obstacles to development and change. Despite the importance of the housing industry for the economy, the prerequisites for housing financing and for a functioning housing market were not yet adequately developed. A number of international organizations were funding activities relating to urban and social issues, but not directly to the housing sector.

## **B. Recommendations of the Country Profile**

13. In total the Country Profile made 66 recommendations. Many of them focused on the need for more clarity on the role of actors and for the adoption of housing policies. The main recommendations are summarized below.

14. Concerning the importance of housing, the experts recommended that government and other agencies, including international organizations, should recognize the benefits of housing to the economy and society. For this reason funding for housing should be increased and a holistic housing policy, which would include the work of all the relevant ministries, should be drawn up.

15. The Profile included recommendations to provide public or social housing for the most needy, allocated through a transparent system. To achieve this, a wide range of policy issues concerning social housing needed to be addressed. A system of means-tested housing allowances, or rent subsidies, was also proposed.

16. A number of recommendations concerned the role of local government in housing, encouraging it to take on a wide range of functions that would improve local housing, including the development of a local housing strategy. Local government should be empowered through a clear legal framework, including the ability to own land, and clear financial powers, including the ability to raise property and other taxes to fund housing and infrastructure. In view of its limited experience, local government capacity to deal with housing issues should be strengthened as part of the decentralization of government functions.

17. In regard to housing condominiums, it was recommended that they should have the status of legal entities, and all new developers of apartment buildings should establish a condominium following the sale. Pilot projects were proposed as a way to establish homeowners' associations in existing housing.

18. In order to improve the private housing market, priority was sought for the completion of land title registration. Support for an improved housing mortgage sector was to be encouraged through better legislation, and it was suggested that mortgage conditions could be improved to reduce the impact on first-time buyers, possibly using tax relief on mortgage interest. Incentives, such as preferential tax treatment, were suggested for those building for low-income families, as was the consideration of the advantages of separating the ownership of land and building. Other proposals were to develop micro-credit for local communities to finance maintenance, and to improve information about the risks and benefits of homeownership.

19. The experts urged the Albanian Government to formulate a policy to address illegal housing, including the search for new solutions. They also supported 'bottom-up' community projects to deal with housing.

20. To address with issues relating to housing construction, measures were recommended to reduce the need to import construction materials, and to revise legislation concerning utilities, together with other measures to make their use more efficient.

21. Other recommended legal changes were to ensure that the Civil Code allowed the effective functioning of rental housing, and to revise the means of compensation following restitution.

22. Finally, the experts made recommendations to improve housing policy. They suggested that future housing demand should be assessed through sound research, that advisory services should be established to encourage good practice in housing provision, and that Albania should draw on the housing experience of other countries in transition and good practices from other countries in the UNECE region.

## **II. CURRENT STATE OF THE HOUSING SECTOR AND MINISTERIAL PRIORITIES**

### **A. Developments in Albania's housing sector since 2002 and related proposals**

23. Since 2002 the housing sector in Albania has changed little. However, the Government has made a considerable effort to draw up the legislation that will create the right framework for the implementation of different programmes. The Government has also striven to bring housing issues to the attention of all stakeholders. In 2003 the Agency for the Urbanization of Illegal Settlements was established to set up local agencies to deal with informal housing developments.

24. On the other hand, the private sector continues to offer houses at market prices, which few families can afford. Private banks have increased the number of housing loans but again few families can afford their interest rates. The condition of the privatized housing stock continues to decline because of a lack of maintenance and finance.

25. Since the Country Profile was completed, the Government has identified three priorities and empowered the Ministry of Territorial Development and Tourism to address them. They are:

(a) Taking action to establish sustainable arrangements for the maintenance of privatized apartments;

(b) Developing a social housing programme for people in need of housing;

(c) Establishing a housing finance system that can sustain the housing policy.

26. To make progress with these priorities, the Ministry has drawn up specific programmes and laws, as presented below. Furthermore, the Ministry recognizes the importance of coordinating of the work with its partners and the stakeholders of the housing sector.

### **B. Proposals prepared by the Ministry for discussion**

27. The workshop's discussion was based on concrete proposals presented by the Ministry of Territorial Development and Tourism. These were:

(a) The National Housing Strategy and the need for a network of key stakeholders. Different network arrangements were proposed. There could be a formalized network established by decree, a number of working groups looking at different topics, or an independent network. The main objective of establishing such a network was to involve all stakeholders on an equal footing, to start a frank dialogue and to come up with decisions with all those involved having the same understanding;

(b) The draft law on stimulating programmes for housing improvements and maintenance and urban renewal. The draft provides for the establishment of condominium assemblies, which may seek public funding for improvement schemes. The draft clarifies the work that can be included in the schemes, the procedure for dealing with applications and the documentary requirements of assemblies. It also sets out the role of municipalities. The financial contribution expected from different actors is also spelt out;

(c) A proposal for support and skills transfer in management and maintenance of privatized housing. The pilot project is to last for three years and is intended to encourage several pilot assemblies and a non-profit property management organization. The assemblies are expected to set an example for other owners, and the non-profit organization could in time provide new social housing. The proposal makes provision for those involved to benefit from the experience of other countries;

(d) The draft law on social programmes for housing urban inhabitants. The draft specifies those categories of vulnerable households that may benefit from the four social housing programmes. Requests are made to municipalities, which operate within government regulations. Municipalities or non-profit bodies can own housing, which they can let at affordable rents. Alternatively, municipalities can give a housing certificate or allowance to meet the difference between affordable and market rents. For low-cost homeownership, interest rates may be subsidized by the central Government (see proposal below), or municipalities may sell serviced sites together with technical assistance for self-build. The draft provides for a national housing committee to oversee a ten-year programme. It gives municipalities specific responsibilities and expects a training programme to be completed within a year;

(e) A proposal for collaboration between the private banking sector and the public sector. The proposal seeks a partnership to increase private lending for housing and make loans more affordable. It evaluates three options or scenarios in which interest payments are subsidized. This allows more families to be assisted than through a one-off subsidy, whilst expenditure can be monitored by controlling the number of families entering the scheme each year. The first scenario subsidizes a bank for loans made in leks, and the second for loans made in United States dollars, the difference is that loans in dollars are made at a much lower rate of interest. In the third scenario the National Housing Agency builds a house with money from a fund guaranteed by the State. The proposal compares the costs and difficulties of the scenarios, and suggests further options such as savings schemes for housing, a security fund to insure debt and a specialized housing development bank.

### **III. FEEDBACK FROM WORKSHOP PARTICIPANTS: STAKEHOLDERS AND INTERNATIONAL EXPERTS**

#### **A. The National Housing Strategy**

28. The Ministry noted that for ten years housing policy had tried to deal with problems piecemeal. Then it had sought to address current conditions and regional imbalances more comprehensively. The Housing Action Plan of 2001 had lacked the necessary coordination, staff and experience. Different options for creating a network that would provide the coordination needed for future housing policy were discussed at the workshop.

29. Some participants felt that the response to the transition and to the rapid pace of new construction had been slow. Housing competencies would now be transferred to local government, but there needed to be further discussion on how this would happen in practice. The draft law on social housing was a good example of clarifying competencies and was expected to achieve consensus among local authorities.
30. The experts welcomed the progress that had been made in the development of a national housing strategy. They thought that the successful implementation of the strategy would require partnership and trust, principally between central and local government, but also with the private and voluntary sector. The working relationship must allow the parties to discuss and work together on developing practical schemes.
31. The participants at the workshop agreed that a network of agencies concerned with housing should be established at national and local levels. This should be initiated by the Ministry and should include non-profit associations and private sector organizations.
32. The experts felt it important that the network should be open, both in membership and for all parties to be able to contribute to the agenda. The most productive arrangement was likely to be a core group of key actors, with specialist subgroups looking at specific proposals.
33. During the workshop it was noted that the housing strategy made a vital contribution to the economy, to job creation and to social well-being. This contribution should be stressed when making the case for public funding for housing. The considerable media interest generated by the workshop suggested that there could be opportunities for making this case.

#### **B. The privatized housing stock**

34. Nearly all public sector housing was privatized in the 1990s, and the old State maintenance agencies wound up. The condition of this stock, representing a significant proportion of the total housing stock, is deteriorating. The responsibility for common spaces in these blocks of flats needs to be clarified.
35. The experts considered that focusing on such a significant part of the housing stock should be a top priority. They also questioned whether it was sustainable for the entire housing stock to remain in private ownership.
36. A legal framework for condominium management had been developed in Albania but the homeowners' associations that it provided for had not been set up. The participants felt that associations had not developed for a variety of reasons, including traditional attitudes, the mindset of people who do not wish to cooperate with other owners, the low incomes of owners and the completion of privatization before the condominium legislation had been put in place. Many felt that greater public awareness and encouragement would be needed to overcome these factors.
37. The successful stimulation of activity in privatized housing would require a sound legislative framework. This might need to provide for alternatives to condominiums and provisions to regulate housing management effectively.

38. Participants agreed that, to ensure adequate maintenance, it was necessary for all residents in a building to agree to make some financial provision. Additional financial support, such as that included in the draft law, could be the most effective in encouraging the formation of homeowners' associations. It was felt that local government could play an important role, without having to become the owner of the apartments, but would need funding. There was also a role for banks to grant loans for work to be carried out on condominiums, though few such loans had been made.

39. The experts' view was that arrangements needed to be put in place to ensure that in buildings with multiple owners decisions were made to undertake and finance the necessary maintenance of common, or shared, parts. Achieving this would require a combination of institutional and cultural changes. Changing attitudes would take longer. A top-down only approach would not work, and changes should involve local people and include practical training for them.

40. The experts felt that the draft law and proposal of the Ministry to transfer support and skills was an excellent approach, as it would allow some apartments to demonstrate the benefits of setting up associations and carrying out maintenance work. They agreed that financial support would be an effective way of encouraging good examples, and drew attention to useful experience in some countries in transition and to the detailed guidance concerning condominium ownership produced by UNECE (ECE/HBP/123).

41. They further pointed out that, in countries with condominium arrangements, specialist firms often carried out property management for associations. These could be non-profit housing associations. If major work was to be financed, then banks would need to have confidence in the borrowers before issuing loans.

42. The experts warned that, even with financial and other support, some residents might choose not to become involved, and in this case the possible transfer of some housing to local government to use as social housing might need to be assessed.

### **C. Social housing delivery**

43. The Ministry outlined the draft social housing law, which provided for subsidized housing and financial support programmes for low-income households. The overall approach, including the role of local government, had now been agreed by the Council of Ministers.

44. Participants noted that there was a need to set priorities for beneficiaries, who would include, but not be confined to, those homeless categories included in previous legislation. Some of the municipalities attending the workshop sought clarification concerning the priority of people moving to their area and the need to avoid abuse. It was pointed out that this could be dealt with by government decree.

45. The experts noted that the term 'social housing' embraced different kinds of housing provision. The draft law on social housing law clarified the programmes and support that would be available and provided an excellent overall approach.

46. The issue of ownership was raised by a number of participants. It was pointed out that, whilst the draft law allowed municipalities to own social housing, it also allowed them to



provide financial support to families or to private organizations if this met housing needs. There was a role for private agencies to contribute to meeting housing needs.

47. The experts, noting that social housing could be owned by municipalities or the private sector, thought that what mattered was that the housing was provided at affordable rents and it properly managed. It would be for municipalities to decide what mix of social housing best met their local needs and market conditions.

48. Whilst the draft law provided for a foundation, it would not create new housing. So central and local government would need to prepare specific proposals to provide practical schemes. To achieve this, trust would need to be developed.

49. The experts pointed out that the provision of social housing could be combined with action to maintain existing privatized housing. Poorer residents in privatized housing could be given financial assistance to remain there at affordable rents. Alternatively, in buildings where most residents could not pay market rents, the building could be converted to social housing. The municipality would become the owner, provided that it had the finance to do so. In planning schemes, the risk of creating ghettos, and, consequently, social exclusion should be avoided.

50. Municipalities participating in the workshop felt that they should address these housing issues. One municipality was keen to find an answer to local housing problems. It had carried out a survey to estimate the number of homeless people in its area, and was concerned at how long it might take to meet their needs.

51. The experts felt that, with several social housing programmes, it was important that each municipality should draw up a local housing plan, as required by the draft law. This would enable the municipality to justify, and to argue for the budget needed to provide, the kind of social housing that would best meet the needs of its area. Although early transfer of competencies under decentralization was essential, the work of one municipality suggested that some preparation could start without delay. Pilot projects to develop local capacity and share experience, as suggested in the Country Profile, would help.

52. Many participants, including municipalities, noted that financing was key issue and that municipalities did not currently have funds to provide social housing. It was pointed out that, as part of decentralization, municipalities would be able to use funds from some local taxes and from the sales of land. They would also be able to own land and buildings, and to take out loans from banks. Municipalities expressed concern that they were still unable to exercise these powers. There was support from participants for greater financial autonomy for local government.

53. The experts accepted that funding remained a key issue, but felt that there need be no conflict of interest between central and local government. If specific projects were to be developed, central government should provide a degree of financial certainty and autonomy, whilst local government should accept that it would not receive the State funding that it would like and it must explore other sources of finance. Together these approaches would help to increase mutual confidence and responsibility towards the community. The experts felt that pilot social housing projects would help to develop capacity and that the Ministry should commit some funding as well as seek donor assistance.

#### **D. Housing finance**

54. The Ministry outlined the proposal for collaboration between the Government and private banks and the three scenarios mentioned above. More benefit would be gained from loans in dollars, which had lower interest rates than those in leks, but the greatest benefit could be from construction by an organization, such as the National Housing Agency, able to build at non-profit levels.

55. The experts agreed that finance was fundamental to the housing strategy and that private finance could make a major contribution to future housing provision. They felt that subsidies for housing should be targeted and transparent. They commended the evaluation of scenarios as a good example of how to plan for the most effective use of limited public funds for housing, as it considered different options by looking at the evidence and then sought the views of partners.

56. Some participants pointed out that the private market could make a greater contribution if the overall context was more favourable. They felt that a functioning private housing market would be more likely if there was overall macroeconomic stability, an efficient land registration system, and if mortgage legislation allowed for sanctions following non-payment. Some of the banks participating in the workshop suggested that some practices, such as collateral requirements established by the Central Bank of Albania should be investigated to see if changes could increase housing lending. They also felt that a guarantee scheme would encourage banks to lend more for housing.

57. The experts agreed that changes to practices such as collateral requirements or the introduction of guarantees should be assessed to establish whether they could contribute to the aims of the housing strategy.

58. Some banks pointed out that they had made many loans for housing, including in some cases for the improvement of existing properties and for small sums, and were keen to continue doing so. The banks said that they wished to work with the Government, especially on the third scenario presented by the Ministry, and would consider granting loans to municipalities if this were allowed by law.

59. One international agency participating in the workshop suggested that there could be a potential for microcredit schemes like those that had been successfully run in other countries in South-Eastern Europe alongside traditional lending. The experts thought that the benefits of microcredit schemes for housing should be considered.

#### **IV. CONCLUSIONS OF THE WORKSHOP**

60. In general, the workshop achieved the expected results and proved to be an excellent way for the Albanian Government to make practical proposals and discuss future action. Specifically the workshop concluded that:

(a) A network of key stakeholders was needed to implement the housing strategy, with a core membership and smaller specialized working groups, according to the issues to be dealt with;

(b) The draft law on social housing was an excellent approach, which needed to be put into practice through pilot projects;

(c) Training and capacity-building for local authorities should be given priority;

(d) The approach proposed by the Ministry to deal with the maintenance of the privatized housing stock was a good start, which needed to be implemented with pilot projects and training;

(e) An awareness campaign for community-based approaches to housing maintenance was considered to be very important;

(f) The proposal for a partnership between the public sector and private banks found support among some banks and should be further discussed.

61. Overall the experts commended the Government of Albania for the progress made in the development of its national housing strategy. Although good progress had been made on the identified priorities, there was still much to do. UNECE and the experts stood ready to assist the process of further developing the strategy, in particular with the implementation of the pilot projects discussed during the workshop.

62. Finance remained vital and the experts felt that more could be done to coordinate the contribution from international donors. It was, therefore, suggested that UNECE could convene a meeting of donors to discuss how they could best support the implementation of the housing strategy, at the initial stage through pilot projects. To that end it was suggested that the Ministry should prepare as soon as possible a set of pilot projects in selected priority areas, which should be discussed with the network members. These pilot projects needed to be accompanied by an implementation programme, including a specific timetable and a budget. A meeting of donors would then be convened to present such projects for possible funding. To further share experience, it was felt that representatives of neighbouring countries that might have relevant experience or have developed similar pilot projects should also be invited to the meeting.

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