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## PROJECT AGAINST CORRUPTION IN ALBANIA (PACA)

### TECHNICAL PAPER

#### CORRUPTION RISK ASSESSMENT: PROVISION OF SOCIAL HOUSING IN ALBANIA

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*May 2011*

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## 1 INTRODUCTION

This Technical Paper is prepared in the framework of the “Project against Corruption in Albania” (PACA). Activity 1.1.3 of the Project envisages the completion of five risk assessments on selected institutions/areas, one of which was chosen to be the allocation of social housing. The paper provides an assessment of corruption risks in social housing provision and allocation and formulates specific policy recommendations to reduce risk and/or address the findings of this paper. The policy recommendations and the respective specific measures are provided for both, the central and local government institutions that have the responsibility to deal with social housing. According to the agreed PACA Workplan (Activity 1.1.7) the recommendations of the risk assessments will be used to develop specific policies to address the problems identified in the assessments.

The paper is organised in four parts. The first part summarises the methodology deployed for gathering, analysing and assessing the information. The second part describes the current system for provision and allocation of social housing, making reference to the national and local institutional and legal framework, as well as to the current local practices. The third part discusses the findings of the analysis and focuses on the assessment of corruption risks. The fourth part provides a list of policy recommendations, followed by an indicative action plan.

### 1.1 Applied methodology

The methodology for the preparation of this paper comprises information gathering and analysis, and risk assessment. Information was collected through a desk review and fieldwork. The desk review process included:

- Desk review of the relevant documents, such as the PACA “Preliminary study on provision and allocation of housing in Albania” (2010); the law “On Organization and Functioning of the Local Government” (8652/2000); the law “On Territorial Planning” (10119/2009) and its respective draft by-laws; the National Sector Strategy for Housing (MPWT, 2010); the “Housing Management Manual” (CEB, Social Housing Project, 2009); the “European Social Charter” (1996, revised); the “United Nations Convention Against Corruption” (2004); and some of the reports and studies mentioned in the PACA preliminary study.
- A detailed study of the 2004 Law “On Social Housing Programs in Urban Areas”, which was last amended in April 2009 (hereinafter ‘Social Housing Law’), and its by-laws. This was aiming at understanding the structure and overall rules of the social housing programs, the benefits and obligations of the stakeholders and the characteristics of the target groups.
- Key informant interviews with the representatives of the housing departments in the municipalities of Shkodra, Tirana and Durres and an informative interview with

the head of the housing department in the Ministry of Public Works and Transport. The objectives of the interviews were to:

- Understand current practices in the area of social housing provision and allocation;
- Identify gaps and potential interventions or expectations for improvement;
- Identify the stakeholders' concerns;
- Identify aspects of the current social housing system that could be associated with corruption risks;
- Identify positive reference points in the current system of social housing allocation and provision at the local level.

The interviews were based on an exhaustive form, prepared beforehand, to help structuring the discussion. The main topics include:

- Description of the processes and procedures for implementation of the relevant social housing programs in each municipality (type of programs, contractual relations, preparation of criteria for selection of beneficiaries, etc.)
- Description of the institutional framework for provision/administration of social housing as a local service in each municipality (structure and number of staff, capacities, etc.)
- Strategic planning for social housing (10-year housing programs, link to territorial planning, use of integrated databases, link to municipal social programs, etc.)

## **2 THE SYSTEM OF ALLOCATION AND PROVISION OF SOCIAL HOUSING**

### **2.1 The institutional, legal and programmatic framework for social housing**

During the first phase of governance decentralization in Albania (1992-2000), social housing was provided by the national government, through programs operated by the National Housing Agency (NHA).

From 1993-1995, most of the government efforts were dedicated to privatisation of the housing stock, which was effectively the first government social housing program. It established the housing market and provided low-cost housing for the beneficiaries. Nevertheless, as it was not associated with the enforcement of the Law on the Maintenance of Common Property, it created a burden for the urban fabric due to low willingness of the citizens to engage in such maintenance.

The second largest government programmatic initiative for social housing was the NHA activity from 1993 to 2007. Housing was built and/or provided to beneficiaries at no or reduced cost. It consisted of three programs: low-cost housing paid with

instalments; free apartments for war veterans and former political prisoners; and subsidised housing for specific categories of social housing beneficiaries. In 2004 the NHA was transformed into a state enterprise that builds social housing by operating in the market. So far it has entered into agreements with municipalities (Korca, Kavaja, and Shkoder) whereby municipalities provide public land and the NHA finances and builds properties for social housing. The apartments are sold at cost to beneficiaries selected by the municipality.

The law “On the Organization and Functioning of Local Government”, approved by the Parliament in 2000, transferred “urban planning and housing provision” to local governments. In 2004, the Social Housing Law introduced the legal framework for municipalities to provide social housing as a local service and ended the role of National Housing Agency as the sole provider of social housing. However, in practice the National Housing Agency (NHA), though transformed in 2004 into a public enterprise operating in the market, still operated as the only agent for social housing provision until 2007. It was only after 2008 that municipalities started to engage directly in formulating and implementing programs envisaged by the law on social housing provision. However, housing programs under implementation by municipalities, to a large extent, still depend on central government financing and regulations. Many municipalities lack financial resources and still rely on the NHA for construction of social housing. Thus, the provision of social housing by municipalities themselves is still an emerging/evolving process.

The Social Housing Law and its by-laws constitute the vehicle through which local governments can offer housing to people in need. The law defines three overarching programs:

- *Housing with social rent:*
  - The municipality or civil society organizations can build, or buy in the market dwellings that are consequently rented out to particular target groups, through a social rent;
  - Families in need can benefit from a subsidised rent that the municipality allows for selected families renting housing in the market (housing bonus);
  - Structures (initially not for housing) that have lost their primary function and are local government property are assigned for social housing.
- *Low-cost housing:* beneficiaries can obtain housing in the market either by applying for a subsidised loan from a financial institution that has an agreement with the local or central government, buying and paying instalments to the local government, or through other forms of subsidies. Complying with the minimum and maximum income requirement is obligatory to benefit from the program.
- *Housing through “site and services”:* the municipality designates public land for the program and builds the infrastructure. The serviced land is sold to families that are not able to benefit from the low-cost housing, or to developers that will engage in

low-cost housing program. In the second case, the financial earning is used again for social housing (i.e. the proceeds from the sale).

The law designates municipalities as the main actors for planning, management and delivery of social housing programs. In particular, municipalities are responsible for a number of tasks: the identification of social housing needs; development of a ten-year local housing program, including a three-year financial plan; identification and provision of public land for social housing; financing social housing through local taxes, municipal budget, central government, private sector and donors; elaboration of selection criteria for beneficiaries of social housing programs; and management of the construction, administration and maintenance of the social housing stock.

Regarding the selection of beneficiaries for any of the above programs:

- Article 4 of the Social Housing Law provides that families to be selected as beneficiaries for social housing programs are approved by decision of the municipality council, based on one or a combination of the following criteria for qualification:
  - a) They do not own a dwelling;
  - b) They possess housing not conforming in size to housing norms defined for the social and economical category to which the family belongs;
  - c) They belong to a) and b) and have insufficient income as specified in Article 6 of the law;
  - d) They are homeless as result of *force majeure*.
  
- The administration of requests for the social housing programs and definition of priorities is made by the local government bodies. Article 5 of the law stipulates that families that comply with the conditions set in article 4, point 1 of this law and have the following specific characteristics are housed as a matter of priority:
  - a) Families, that certify they have not having benefited from Law No. 7652, dated 23.12.1992 "On the privatization of state dwellings"
  - b) Families where the family/head is a widow or a divorced woman
  - c) Families with one parent, that have children
  - d) Old persons that are of pension age and can not be selected for housing purposes by the social care institutions
  - e) Disabled persons which have the status of blind person, invalids such as paraplegics, victims of labour injury or of the Second World War
  - f) Families with many children
  - g) New couples with a total age up to 55 years
  - h) Families that have changed their residence for employment purposes;
  - i) Individuals with the status of orphan status, from the moment that they leave the orphanage or care centres up to the age of 30

The criteria defined by the municipality may keep all of the above, select among them or elaborate them, and the municipality assigns weights to them totalling 100 points.

At central level, the Ministry of Public Works and Transportation (MPWT) is responsible for preparing, facilitating and overseeing implementation of the social housing policies in Albania. More specifically, the Ministry is responsible for designing policies, preparing strategic documents and legislation as well as undertaking capacity development activities to strengthen local governments as they gradually take over responsibility for the provision of social housing. Furthermore, the MPWT should also monitor the implementation of the legal framework for devolution and identify aspects that should be reinforced or improved.

Out of the three social housing programs envisioned by the law, so far municipalities have started to implement only the first two: social rent housing and low-cost housing:

- Concerning social rent housing, the municipalities of Tirana, Durrës, Fier, Berat, Korça, and Kavaja initiated in 2008 a program to construct housing for social rent, with central government support (technical and loan guarantee). The program has a total value of 29 million Euro of which 15 million is a loan from the CEB and 14 million mainly from the own contribution of municipalities.
- In regard to low-cost housing, a credit support program started in 2009 based on which the government allocates to each municipality the number of families that can benefit credit support through interest rate subsidy. Housing credits are administered by a commercial bank (BKT-National Commercial Bank). Beneficiaries pay 3% interest rate and the difference between that and the market rate is paid by the state. Municipalities prepare the list of people that can benefit for the credit support. However, based on each applicant's credit worthiness it is the bank that has the final decision on the loan.

In both programs, municipalities are still to gain more independence and need to be more proactive. The first program is centrally designed with municipalities following the same rules and procedures. In the case of the second, municipalities - with the exception of Tirana - depend totally on central government financing and have not yet explored the possibilities the law is providing to design their own local programs.

To review the progress with social housing, MPWT revised in 2010 the National Sector Strategy for Housing, defining the following as strategic objectives:

- Ensure balanced housing development in the regions;
- Facilitate access to affordable housing to low and medium income communities and vulnerable groups;
- Contribute to the establishment and strengthening of sustainable communities and improved living conditions.



The strategy shall implement these objectives through specific programs and measures, and by ensuring that cross-cutting principles such as social inclusion, protection of property and energy efficiency, remain at the heart of the proposed action plan.

Furthermore, the Law on Territorial Planning (as amended 23.4.2009) provides new opportunities for local governments to be proactive and undertake different programs that can address social housing issues. This framework law provides substantial space for local governments to design, facilitate or guide land development programs. The by-laws (finalised and to be approved) of this law introduce land management instruments that allow local governments to balance public and private interests as well as give them opportunity to become developers, negotiate in development and provide public goods (social housing included).

For more information on the institutional, legal and programmatic framework for social housing please refer to the PACA Preliminary study on provision and allocation of housing in Albania.

## **2.2 Current provision of social housing at local level**

Housing needs, supply and market vary substantially from one local government to the other. As a result, any local approach for social housing provision is or should be different. Market surveys show that prices for buying dwellings in the market have increased during the last 10 years, thus making it difficult for low and medium income groups to access affordable housing.

On the other hand, the banking system provides appropriate opportunities only for a minority of families, from medium to high-income groups. The conditions for acquiring a mortgage loan from the bank, especially after the financial crisis, have become tighter making it more difficult or impossible for low to middle income groups and families that do not have stable income to access credit. In this context housing programs are important to support people in need as well as stimulate the housing market.

### **2.2.1 Municipality of Tirana**

Tirana Municipality is the only municipality to have prepared (in 2006) a 10-year Municipal Housing Strategy (10-year Program for Social Housing<sup>1</sup>). The Strategy elaborates different housing programs the Municipality intended to explore to address housing needs, based on an assessment of housing needs. It provided an estimation of the costs of addressing the accumulated housing needs at the time of strategy formulation, and used it as a projection for the time frame of the strategy. The Strategy indicates that if all housing needs at the time of strategy formulation (3,000 families) would have been addressed within the first five years the Municipality would have had to allocate 7.2% of its budget to this purpose. However, the strategy does not provide a binding target percentage of the budget the Municipality will allocate for housing to

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<sup>1</sup> In order not to mix with the social housing programs defined by law, instead of "10-years Social Housing Programs", we will use "Municipal Housing Strategy"

implement the strategy. Implementation as a consequence still depends on central government and donor support. The Municipality has undertaken a number of initiatives to implement the housing strategy as described below; no assessment or revision of the strategy has taken place to assess progress and identify corrective actions.

In the course of preparing the housing strategy, in 2006, the Municipality constructed a database to administer accumulated and ongoing requests for social housing support. This database, known as the “homeless” database was built based on previous information on homeless categories and ongoing applications for social housing support. All families that are in need of housing or live in substandard housing, as defined by the law, may apply for social housing support, for which they must complete an application form (self-declaration) providing data on their status and social housing program they wish to apply for. Applications are then administered by the Municipality in the database to see for which program people apply and communicate with them when programs are open and assess whether they meet criteria for inclusion. The database was instrumental for the formulation of the housing strategy and helps with implementation. However it has three drawbacks: (i) it reflects only people that have applied for social housing support and not necessarily all people in need. The number of applications depends on the information communication and outreach of municipality; (ii) accuracy of the information provided depends only on the applicants and there is no assessment or filtering of the information provided by applicants; (iii) data base is perceived as only gathering of the information and not using it to be proactive. Applicants that have filed their request earlier in the process need to “monitor” whether new housing programs are opened and therefore proceed with the application instead of being informed by the municipality. These drawbacks may provide opportunities for corruption and are discussed in section 2.2.4 “Summary of findings”.

Currently, according to the website of the Municipality, there are already 5578 applications of which 4362 families request support for low-cost housing, 1124 request support for housing with social rent and 92 families request housing support through “site and services”. The website does not show for each program the number of families that can potentially benefit, the number of families applying for the program per year or the status of their application.

To ensure that people in need for social housing are informed the municipality provides them with information using different communication means. Information is on the municipality website, posted in the offices of the 11 administrative sub-units of the city, published in the media and disseminated through cooperation with civil society organizations. The latter is mainly used to reach specific vulnerable target groups, such as Roma community and orphans. The municipality sub-units also implemented an awareness-raising campaign organised in 2006-2007 to inform the community in Tirana about the social housing programs and the new self-declaration process.

Since 2006, in line with the strategy and overall legal framework described in Section 2.1 of this report, the municipality has undertaken three main housing programs:

- Housing with Social Rent;
- Housing Bonus for Rented Housing.
- Low-cost Housing with Loan Subsidy;

*The Housing with Social Rent program* is being implemented under the agreement of the Government of Albania with the Council of Europe Development Bank (CEB) for the “Social Housing Project” approved by the parliament in October 2007. The CEB provides a loan for 60% of project cost while Tirana municipality and the government cover 35.3 % and 4.7% of the project costs respectively. The municipality is to construct 350 apartments to be made available for social rent. The project is designed and coordinated at central level. Tirana municipality, like other municipalities benefiting from the project, has established a Project Implementation Unit (PIU). To carry out construction works PIU has contracted 4 construction companies. The municipality claims that the construction quality is higher compared to the housing units delivered by the NHA in the past. Most of the apartments are in the process of finalisation. However, the municipality has not decided yet on how maintenance will be conducted.

1,124 applicants registered in the database have applied for this program. Out of this total, 700 applications have been selected for the second phase and will be subject to evaluation and approval from the Municipal Council based on a scoring system. The Municipality has prepared a scoring system, based on the CEB Housing Management Manual and sent it for approval to the Municipal Council.

The CEB Housing Management Manual, following the Social Housing Law, provides instructions for rent setting, criteria and their relative weight for selection to be followed by each municipality participating in the program.<sup>2</sup> The criteria for assessing applicants are derived from the Social Housing Law and are provided with relative weighting totalling 100 points. If the municipality were to design its own program (i.e. without CEB involvement, it would have to formulate its own criteria within the constraints of the Law and its own scoring system. Under the CEB Social Housing Project in Albania criteria and scoring system that must be used by beneficiary municipalities including Tirana, families applying for housing with social rent should:

1. Live in private rental housing or share housing with extended family members with living area below the housing norms (20pts)
2. Live in private rental housing or share housing with extended family members where the dwelling has poor sanitary conditions or is under a risk of collapse (10 pts)
3. Have special needs in one of the following categories (20 pts):
  - a. Old persons in retirement not selected for housing purposes by social care institutions
  - b. Individuals with disabilities, which have the status of blind person,

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<sup>2</sup> For more information see annexes 1 and 2, Housing Management Manual: Operations Manual for Managers and Tenants of Social Housing, Tirana, Ministry of Public Works and Transport (2009), pp 38-45. [http://www.mppt.gov.al/previewdoc.php?file\\_id=1134](http://www.mppt.gov.al/previewdoc.php?file_id=1134)

- invalids such as paraplegics, handicapped by labour injury or from the Second World War
  - c. Individuals with orphan status from leaving the orphanage or care centre up to the age of 30
- 4. Experience affordability constraints in one of the following categories (10pts):
  - a. Single parent families with dependent children where the family/head is a widow or divorced
  - b. Families with more than four children
- 5. Be eligible for housing assistance in the any of the following categories (10pts):
  - a. Young families with a total age up to 55 years
  - b. Families that have changed their residence for employment reasons
  - c. Other priority criteria defined by the municipality
- 6. Meet the requirements of the Law on Social Housing with net yearly income in the following categories (30pts):
  - a. Income category 1
  - b. Income category 2
  - c. Income category 3

The application process goes in two stages. In the first stage applicants complete the application form providing data on their socio economical status. This application is a self-declaration because no supporting documents are requested. People that meet the criteria are then invited to complete the second phase of the application whereby they have to provide all supporting documents. The list of applicants that have completed successfully the second phase is reviewed by the Housing Department in the municipality. After this, the Housing Committee - established in 2005 and composed of representatives of the administration, Municipal Council and interest groups in compliance with the above-mentioned law and Housing Management Manual ranks the applicants. The list is then submitted to the municipal council for final approval. The Municipal Council often revises the ranking, which can change the final list of beneficiaries because the list submitted by the Housing Committee is of all applicants not just those to be selected.

Applicants should have an income within the intervals indicated by the law and in compliance with rent set by the municipality for each type of apartment. Following the law the annual rent is set at 4% of the cost of each type of apartment. Each family, depending on their composition and respective typology of housing, should have a net monthly income 4 times the monthly rent to be able to classify for support. Looking at the supporting documents applicant should provide (there are 19 documents to be obtained from employment office, social assistance, property office etc.) it appears that the process is biased against poorer families. Poor families have to produce documents to prove that they have sufficient income to pay the rent while families with higher income can potentially withhold information to remain within the upper limit of the income threshold. Comprehensive information on the rent setting methodology is provided in the Housing Management Manual.

The Housing with Social Rent program addresses the housing needs of the low-income groups. However, the Municipality claims that social housing programs should not be

closed, passive and addressing one type of community only. This may lead to social segregation and creation of isolated or marginalised communities. To avoid this, the Municipality intends to make use of the CEB Housing Management Manual scoring system, and by altering the weight to different criteria they will try ensure an adequate social mix. The Municipality is also planning to use the ground floors of the buildings for neighbourhood services. This is thought to enable the creation of vital and liveable neighbourhoods, well integrated into the urban core. However, what ratios within the mix each household category will have and how transparent the process will be remains to be seen.

The project allows also for application of the housing bonus program within its framework, as long as this does not hamper the pay-back process. The loan should be paid to CEB within 10 years, and during this period the municipalities can in no way use the apartments for purposes other than renting to low-income beneficiaries. The rent defined by the CEB Manual works well for Tirana Municipality. The rent is lower than the market value and it is acceptable if compared with the income levels in Tirana.

The *Housing bonus for Rented Housing* program is a sub-program of the Housing with Social Rent program. The program has been supporting around 140 beneficiaries since 2007. This program is financed entirely by the budget of the Municipality. The bonus is equal or lower to the 50% of the minimal rent offered by the market. Families find themselves an apartment/house in the market. To qualify for support they have to provide all the supporting documents to prove their eligibility. Their application is reviewed first by the housing department and then by the housing committee that makes the ranking<sup>3</sup>. The list is submitted to the municipal council, which makes the final decision on who will benefit for the program.

The *Low cost Housing with Loan Subsidy* program is implemented in cooperation with the Ministry of Public Works and Transport. The Ministry provides quotas, which the municipalities can use to support families that have applied for this program and their monthly income is within the reference income brackets. Income brackets are derived from Social Housing Law and are reviewed periodically by the ministry. In 2009-2010 the Municipality of Tirana has been provided with a quota to support around 1200 applicants for social housing. So far, the Municipality has received only 450 applications for this program. This is much lower than the projection in the housing strategy and the data in the database. The housing strategy in 2006 indicated that 84% of the applicants request support through low-cost housing - the database showed a cumulative interest for low-cost housing until 2010 of 4362 families out of 5578 families in total. However, only a small proportion of these families actually apply for loan subsidies. This suggests that either they have become aware of the income requirements and believe they do not meet the criteria, or they are insufficiently informed about the program - for example that they need to apply specifically for assistance under the program in addition to the initial general application (self-declaration).

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<sup>3</sup> A copy of the criteria and their relative weight could not be obtained during the visit but it was understood that criteria are derived by the law (article 4 and 5) and their relative weight is different than housing with social rent program

Also for this stage application goes through two stages. First they provide information and once they are considered they meet the criteria they are invited to submit the supporting documents. Given that the overall number of applications is lower than the approved limit of beneficiaries, the Municipal Council has approved all of the applications, leaving to the bank (the second phase of application) the detailed examination and verification of application folders. The criteria and their relative weight as prepared for approval by the Municipal council are:

1. Families that live in the housing that has been restituted to former-owners (20pts)
2. Families that have lost housing in pyramid schemes (15pts)
3. Families that have become homeless (destroyed informal building, removed from an occupied space in public building) due to implementation of projects of public interest (15pts)
4. Young families with a total age up to 55 years (15pts)
5. Individuals with the orphan status, from the moment that they go away from the orphanage or from the care centres and up to the age of 30 (10 pts)
6. Families with more than two kids (10 pts)
7. Single parent families with dependent children (10 pts)
8. Individuals with disabilities, which have the status of blind person belonging to the first group, invalids such as paraplegics, handicap of the labor or of the Second World War (5 pts)

The scoring system has not been used yet, because the demand is still lower compared to the offer. According to the municipality, people in Tirana are not yet aware of the program and the opportunities it provides.

### **2.2.2 Municipality of Durres**

Until 2008 the Municipality of Durres engaged in social housing programs mainly through the NHA, which provided only 96 apartments over a ten year period. In the early 2000s the municipality also constructed 24 apartments using their own revenues, and instead of selling them through a low-cost scheme, decided to rent to low-income families. Though innovative at the time, the project was considered by the High State Audit as non-compliant with the laws in force. These apartments are still rented at 1,000 Lek (approximately 7 Euro) per month, which is extremely low compared to market rent. The families are responsible for maintaining the building, even though the ownership is with the municipality.

The municipality does not have a housing strategy and the information on housing needs relies on applications. It is not known whether they represent the reality and whether all social groups have had access to information.

Since 2007, in compliance with the Social Housing Law the municipality has undertaken two main housing programs:

- Housing with Social Rent;
- Low-cost Housing with Loan Subsidy

The *Housing with Social Rent program*, as in Tirana, is undertaken within the CEB Social Housing Project and should provide 120 apartments for rent. Also Durres Municipality has established a PIU and follows the same rules and procedures established in the CEB Housing Management Manual. The construction quality of the apartments is very good, but the monthly rent seems to be a problem. Calculating the rent at 4% of the construction cost divided by 12, as indicated in the law and elaborated in the CEB Housing Manual, ties the rent to the cost irrespective of the local market rent. In the case of Durres, differently than Tirana, the social rent calculated based on this formula is close to the market value of the rent for a similar apartment. As a result, though the allocation process is not started yet, the municipality is concerned whether it will be able to address the needs of people most in need and/or whether it will be able to collect the rent regularly. Furthermore, social mix is an issue of concern for the Durres Municipality in the same way as it was described for Tirana. The municipality has not prepared as yet an amortization plan neither included the loan payment to CEB in the medium term budget. The way in which the housing stock will be maintained is still to be decided.

*Low-cost Housing with Loan Subsidy program.* Durres municipality is also receiving quotas from MPWT to support the access of 150 families to subsidised mortgage loans with similar terms as in other parts of the country, i.e. the loan is administered by National Commercial Bank (BKT) and beneficiaries pay a 3% interest rate. At the beginning, though municipality has tried to provide information on the program, there were only 99 applications. As the number was lower than the quota there was no need to apply the scoring system and the municipal council approved all of them. The list was submitted to the bank, which makes the final decision whether or not to provide the loan. In early 2011, the number of applications has exceeded substantially the remaining quota of 51 applications and the municipality will make use of the scoring system to select beneficiaries that will be subject to bank verification. Following the provision of the law the municipality has prepared the criteria with their relative weight as follows:

1. Families that live (30 pts):
  - a. Rented house
  - b. Share apartment with their relatives
  - c. Live in substandard housing
2. Live in temporary shelter that is in bad condition or dilapidated (20 pts)
3. Families with special needs in one of the following:
  - a. Old persons that are in the pension age and can not be selected for housing purposes by the social public-care institutions
  - b. Disabled persons, which have the status of blind person belonging to the first group, invalids such as paraplegics, handicap of the labour or of the Second World War

- c. Individuals with the orphan status, from the moment that they go away from the orphanage or from the care centres up to 30 years old
- 4. Families with financial constrains (10 pts)
  - a. Families with one parent, where the family/head is a widow or a divorced woman
  - b. families with more than 4 children
- 5. Families that are entitled for support (20 pts):
  - a. New families with a total age up to 55 years
  - b. Families that have changed their residence for employment purposes;
  - c. Additional criteria defined by the municipality: where one of the family members is an artist, teacher, police, employee of the local administration etc. and complies with the first criteria (20 pts)

It appears that a 'creditworthiness mindset' has influenced the weight given to each criterion. In fact, it can be argued that the criteria are biased against families with low income – for example, the weight allocated to the criteria of families with a single parent or with more than 4 children is only 10 points out of 100. This is supported also by the fact that the list of 99 beneficiaries approved by the municipal council shows that 80% did not belong to any special social group (widow, single parent, people with disability, etc).

Furthermore, for both Tirana and Durrës, in the absence of an evaluation process and the Bank interested for creditworthy applicant, it might have happened that people with income higher than income bracket have benefited from the program. If this has been the case, information and outreach becomes even more important to avoid deliberate withholding of the information by municipal staff.

### **2.2.3 Municipality of Shkoder**

The Municipality does not have a local housing strategy and has not assigned so far any budgetary funds for social housing. It is engaged only in the provision of low-cost housing either through cooperation with the NHA or the loan subsidy program (where beneficiaries pay a 3% interest rate) facilitated by the MPWT.

The municipality does not have an assessment of housing needs. Data for people in need of social housing is derived from the applications people have made but it is not sure whether all social groups have had access to information and have completed the application forms.

According to local officials Shkodra citizens are not interested in social rent housing, and prefer the "buying" alternative. Buying is also claimed to be the preferred option due to market conditions: calculations on cost-effectiveness made by the municipality show that a social rent based on the construction cost (as is the case with the CEB Social Housing Project) is almost equal to the market rent for Shkodra. Thus construction of new houses to be provided with social rent is not a feasible or preferred option for families in need of housing. However, the Municipality has not engaged in any



feasibility analysis and serious business plan for social rent housing alternatives, to assess whether the latter is or is not a feasible option in Shkodra.

The municipality of Shkodra is collaborating with the NHA to construct low-cost housing. Other than providing the land the municipality has no other role during the construction process. The municipality has allocated 14,000 m<sup>2</sup> and NHA has built to date 5 buildings. Once finished, the apartments will be sold by NHA at cost based on the beneficiary list prepared by the municipality and approved by the Municipal Council.

As in the other municipalities, the application process to benefit from this support follows the provision of the law and goes in two stages. At first families in need have completed the application form and once they are considered eligible they are requested to provide the supporting documents. The unit responsible for housing in the municipality and the housing committee based on weighted criteria prepare the list of potential beneficiaries, which is then reviewed and finally approved by the municipal council. The Municipal Council usually takes decision based on the list provided by the Housing Committee. It can approve the list as it is or alter the ranking if it deems necessary.

As explained from the municipality, the criteria are derived from Article 5 of the Social Housing Law and are assigned with a weight for the evaluation totalling 100 points. Yet, as the municipality did not provide these criteria as promised, the expert could not see them in concrete terms. As the municipality is free to choose and weight the criteria, it would have been interesting to see how 'ability to pay' has been factored in the selection process. Beneficiaries have to pay the entire amount for buying the apartment at once, although many of them do not have sufficient/stable income.

*Low-cost Housing with Loan Subsidy program.* Shkodra municipality is also receiving quotas from MPWT to support the access of 400 families to subsidised mortgage loans with similar terms as in other parts of the country, (i.e. the loan is administered by National Commercial Bank (BKT) and beneficiaries pay a 3% interest rate). So far the municipality has not started yet with the program while there are around 1000 applicants. As provided in the law the process is going in two stages. First, people in need for social housing have complete the application form (self-declaration) and once they are considered they meet the criteria they are invited to submit the supporting documents. The housing unit and housing committee will review the application and based on the weighted criteria will prepare the list with the ranking. Once this is prepared it will be the municipal council to make the final decision. The Municipal Council can approve the list as submitted by the housing committee or alter the ranking as it deems necessarily. The criteria will be derived from the law and will be given a certain weight. These criteria are still to be approved by the municipal council.

#### **2.2.4 Summary of findings**

The following are the main findings of this assessment based on analysis of the provision and allocation of social housing to date by the three municipalities selected.

- Social housing provision and allocation as a local service seems to be still in early stages of development. The legal framework provides a good basis for municipalities to provide social housing, but the local initiatives (with some exception in Tirana) are so far fragmented and not comprehensive. Local governments, except Tirana, have not prepared local housing strategies to guide their initiatives re social housing. Their involvement is mainly encouraged, guided and facilitated by central government provisions, rather than being proactive and locally driven. The municipalities are as yet in a waiting position for national funds to become available. They have not designed local policies that make use of local revenues and simultaneously attract national resources.
- The CEB-supported project seems to be the most engaging social housing project countrywide. The perception is that it constitutes the most significant local program for housing, given the energies and resources it takes to each municipality to implement the project. The reason behind is twofold: 1) The project is large, supported by the government and strictly monitored by CEB and therefore requires serious engagement of the respective local governments. 2) Despite some concerns expressed by municipalities in regard to the project, it is the first meaningful program on social housing, especially as regards procedures and administration. The program has gone through all typical stages of project management and has a solid organizational structure to support it. In this regard, it also constitutes a capacity building process for municipalities and can be used as a reference for implementation of other housing programs. Especially the latter, is an indication of the local government need for technical assistance regarding housing management and for close cooperation between local and central government, with some oversight and guidance from the latter.
- The database of target groups in need for housing is created based on the self-declaration process and independently from any other municipal databases. If other databases exist, they do not appear to serve for the identification of categories in need of social housing. The quality of the database is therefore fully dependent on the information provided (with some verification), as well as the communication process that the municipality undertakes to reach the target groups. The lack of a more comprehensive database does not allow the municipality to design visionary local policies for social housing and it encourages “on-the-spot demand-oriented” behaviour.
- The provision of information to target groups is lagging behind. The fact that on one side we have municipalities with large number of initial applications indicating low-cost housing as a preferred option and on the other side very little applications for loan subsidy indicates that, while municipalities have gathered request for support over years, they do not communicate back with applicants to inform them once the programs are opened. There is no any strategic approach as yet behind this process.

The Municipality of Tirana has a more comprehensive approach making use of various means of communication. The other municipalities have taken a rather passive approach in this regard. Information is limited to posting in the municipality hall and upload of the application forms online. Usually (except for Tirana), there is no information on the programs or the opportunities that the citizens have for social housing. The municipalities' websites are not very proactive in terms of attempting to ensure that visitors are made aware of the programs on offer. The media is used only occasionally. The lack of proper communication strategies may be simply a matter of priorities in the daily routine of the local governments, lack of professionalism. It could on the other hand also be deliberate and/or combined with providing information to 'selected' beneficiaries – i.e. a phenomenon closely related to corruption.

- Partly as a result of poor communication strategy, the number of applicants in the loan subsidy program (low-cost housing) is still lower compared to the allowed number of beneficiaries in each municipality. This may also however be due to scepticism by citizens concerning their ability to fulfil the requirements.. The latter in turn may be due to the lack of appropriate research to reveal the real distribution of families in need of social housing across Albania. Whatever the case, low number of applications creates room for the municipality not to go through proper evaluation process thus, creating room for people that are not necessarily entitled to benefit from the program.
- One problematic aspect of the CEB-supported project is the establishment of equal rent intervals for different regions in Albania. The construction cost is almost the same countrywide, but the level of family income, local revenues and market prices are different. While the CEB-supported social rent is affordable in Tirana, it is not so affordable in Durres. This indicates that a more regional approach should be taken when designing rules and obligations for national social housing programs.
- Capacities to handle social housing as a local service need to be strengthened further. The municipalities claim for more flexibility and space to be allowed from the law. However, in reality (except for Tirana), the local behaviour is still relatively passive. Social housing provision and management requires high planning and managerial capacities that are yet missing in the Albanian municipalities. The number of employees in the local housing departments varies from 5 (Tirana) to 1 (usually a housing inspector, in Durres and Shkoder). These numbers are not low in proportion to the overall administration, but are insufficient to devise and implement a strategic housing policy at local level.
- So far, the municipalities are engaged with provision of social housing and no real experiences exist on maintenance of the social housing stock. As a result, it is still early to assess this process of housing management. However, municipalities sense that this issue will become soon a real concern.

- So far the municipalities have been mainly occupied with construction. Especially with regard to the CEB supported project, allocation may become soon an issue. Allocation is still to be implemented and thus tested for the quality of the process, its transparency, and especially for the proper addressing of the most vulnerable groups needs. Although the Social Housing Law provides the criteria municipalities should use in allocation of social housing, municipalities have substantial discretion in deciding which criteria to use and what their weight should be. So far, most municipalities lack a broader housing policy/strategy, and in the absence of this they have pursued social housing programs in isolation. Therefore, criteria for each program are set with no consideration on the overall impact in addressing social housing need. As the current programs tend to favour more middle-upper income group, they have not taken corrective measures to allow that low-income families are given the same opportunity to benefit for the current social housing programs.
- The low-cost housing program implemented through the GoA loan subsidy seems to be a bit controversial and municipalities face a common difficulty in implementation. While the program is dedicated to low and medium income groups that do not possess houses, the banks, in search for creditworthy clients, choose families that either have high stable incomes or could arrange to have an estate as collateral for the loan. Thus, the banks choose the better-off families and the program is designed in such way that the banks have the final say in the process. At first sight, considering the importance of loan payback it could be justifiable that the program addresses medium-income more than the low income families. However, this is in contrast with the priorities at local level. Nonetheless, municipalities consider this a central government program and have done little to ensure that their decision prevails over the banks' decision. At this point, it becomes questionable whether municipalities really consider this a shortcoming of the program design or consider it convenient as it provides room for discretion. Moreover, the burden for providing supporting documents in the application process for both social rent and loan subsidy is skewed downwards. Poor families have to prove that they have sufficient income to pay the rent or pay back the loan while the upper part can potentially withhold information to remain within the upper limit of the income threshold to benefit support. Therefore the application process can be associated with ambiguities that can create room for corruption. While municipalities recognise this as a constraint they have done nothing to correct it because they consider as soothing related to the law.
- For all social housing programs municipalities have undertaken, while there is a technical evaluation from the housing departments/units and housing committees, the final decision has been with the municipal council. In fact, once it has approved the scoring system for evaluation to be used by the administration, instead of merely overseeing the process, the Municipal Council gets directly involved in the final process of choosing beneficiaries. This clearly raises the risk that the Council will influence the selection of beneficiaries on the basis of criteria that are less than objective.

- The low-cost housing program implemented through the GoA loan subsidy seems to be somewhat controversial and municipalities face a common difficulty in implementation. While the program is dedicated to low and medium income groups that do not possess houses, the banks, in search for creditworthy clients, choose families that either have high stable incomes or could arrange to have an estate as collateral for the loan. Thus, the banks choose the better-off families and the program is designed in such way that the banks have the final say in the process. At first sight, considering the importance of loan payback it could be justifiable that the program addresses medium-income more than the low income families. However, this is in contrast with the priorities at local level. Nonetheless, municipalities consider this a central government program and have done little to ensure that their decision prevails over the banks' decision. At this point, it becomes questionable whether municipalities really consider this a shortcoming of the program design or consider it convenient as it provides room for discretion.
- Moreover, the burden for providing supporting documents in the application process for both social rent and loan subsidy is skewed downwards. Poor families have to prove that they have sufficient income to pay the rent or pay back the loan while the upper part can potentially withhold information to remain within the upper limit of the income threshold to benefit support. Therefore the application process can be associated with ambiguities that can create room for corruption. While municipalities recognise this as a constraint, they have done nothing to correct it because they consider it as something given by the law.
- Municipalities have not decided how to make use of the assets provided under the CEB project once the contractual commitment with CEB ends. In other words, after 10 years - once the loan is paid back to the bank - there is no clear sense of whether the apartments should be used thereafter for social housing under the same scheme, or sold in the market.

### 3 SUMMARY OF CORRUPTION RISKS

This assessment has not covered a number of areas related to the provision of social housing that may be subject to corruption risks. Perhaps the important of these is the construction of housing itself, from the purchase/selection of land, through tendering to monitoring and enforcement of construction quality. These may be regarded as general public works procurement risks, and are beyond the capacity of an assessment of this size to address adequately. Other risks include for example corruption involving contracts for housing maintenance.

Instead, this assessment has focused on the core issues in the provision of social housing, focusing on the framework and processes for identifying potential beneficiaries and selecting concrete beneficiaries through specific programs. In this context, Table 1 identifies three main corruption risks in the provision of social housing in Albania that have emerged from this study.

**Table 1: Summary of Corruption Risks in the Provision of Social Housing**

Corruption Risks	Causal factors behind risk	Consequences
<p><b>1. Insufficient provision/availability of information on social housing programs</b></p>	<ul style="list-style-type: none"> <li>• Lack of strategic outreach/information campaigns on social housing programs</li> <li>• Database of beneficiaries based on self-declaration</li> <li>• Lack of or failure to use other municipal or national databases (e.g. social security) to identify beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Fewer or the wrong people are chosen as beneficiaries benefit.</li> <li>• Fewer or wrong persons informed of programs for which to apply</li> </ul>
<p><b>2. Criteria/rules for selecting beneficiaries poorly designed</b></p>	<ul style="list-style-type: none"> <li>• Lack of comprehensive local housing policies</li> <li>• Criteria/scoring system and process of application (especially verification of information provide) for loan subsidies biased towards higher-income groups</li> <li>• Verification of information provided by applicants 'outsourced' to financial institutions with incentives to select higher-income applicants</li> <li>• Rent-setting criteria fails to reflect local realities, resulting in social housing only affordable to medium/higher-income beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Inappropriate candidates benefit from programs</li> <li>• Collusion is facilitated between officials and 'selected' higher-income beneficiaries</li> </ul>
<p><b>3. Manipulation of process to select beneficiaries</b></p>	<ul style="list-style-type: none"> <li>• Process for designing scoring system arbitrary due to lack of clear local housing policy</li> <li>• Excessive discretion of</li> </ul>	<ul style="list-style-type: none"> <li>• Corruption in selection of beneficiaries</li> <li>• Inappropriate</li> </ul>

	Municipal Councils to alter ranking of (and therefore change) beneficiaries of social housing programs	candidates benefit from the programs.
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## 4 POLICY RECOMMENDATIONS

### 4.1 Policy Recommendations with action plan specifications

The main conclusion of this assessment of the system for allocation of social housing is that corruption risks exist because the system is not consolidated yet and capacities to implement social housing provision are still at a low level. Rather than simply implementing mechanistic measures for ‘fighting corruption in social housing provision’, broader measures are needed to improve and strengthen the social housing system in Albania. This will have two positive impacts: corruption is decreased and the performance of the system is improved in terms of quality and efficiency. These measures, organised along four categories are presented below.

#### 4.1.1 General

- By the end of 2012 the MPWT should develop and regularly update a comprehensive database, preferably a Geographical Information System (GIS), of people in need of social housing. The 2011 census may be a starting point, and can be used in cooperation with INSTAT to create local urban databases of social housing needs.
- Local governments should prepare ten-year comprehensive social housing strategies according to the requirements of the Social Housing Law, preferably by the end of 2011 but by the end of 2012 at the latest. These programs should constitute the basis for all social housing provision at local level and should be updated annually. These programs should include in particular elements to ensure that social housing policy is an instrument to benefit relevant target groups – i.e. those in need of social housing – rather than (either by design or default) those who are not in need.

#### 4.1.2 Provision of Information

- MPWT should formulate by the end of 2011 a policy for disseminating information on the national housing policy framework and what it means for individual citizens, and ensure that all target groups are reached during the first half of 2012.
- Municipalities should adopt by the end of 2011 comprehensive strategies for ensuring that citizens in general and target groups in particular are effectively

informed about local social housing policies and their opportunities to benefit from these policies. This should specifically include the following.

- An overall plan should be formulated and approved for information outreach, defining target groups, information to be disseminated, means of dissemination and costs (budget).
- All municipalities should ensure that their websites carry comprehensive information on social housing programs, funds available, criteria, scoring systems, number of applicants, guidelines for application, descriptions of procedures, etc.
- However, the internet is not a sufficient means of dissemination for all target groups and must be supplemented by more proactive strategies to reach vulnerable groups. Associations of vulnerable groups should be actively engaged – including through the provision to them of resources - to carry out information and outreach to their members regarding social housing opportunities, and possibly to assist applicants in preparing applications.

#### **4.1.3 The process of housing allocation**

- *Allocation of National Funds* – From 2012, the Ministry of Public Works and Transport, in cooperation with the Ministry of Finances and the Ministry of Interior, should revise the system for allocation of national funds for social housing to the municipalities to ensure that:
  - Municipalities do not receive financial support unless they have prepared their 10-years social housing strategies;
  - Funds are allocated based on local policies derived from municipalities 10 year strategies and updated annually;
  - Allocation of financial support to municipalities is competitive and municipalities are expected to demonstrate their own financial contribution (taking into account financial disparities among municipalities) and the contribution their policies will make to decreasing the number of citizens in need of housing
  - Allocation of financial support is also linked to the results of MPWT monitoring.
- *Deadlines for allocation.* By the end of 2011 the MPWT should clarify, either through proposed changes to the Social Housing Law or other legal instruments, deadlines for the provision of a social housing solution, following the submission of an application and the selection of the applicant as a possible beneficiary in one of the programs.
- *The role of the Housing Committee* - Based on the law, the local committee for social housing should include not only public officials, but representatives of target groups and civic society as well. This is rarely the case in practice, and Municipal Councils and local governments should steps should be taken to



ensure that it becomes a reality, preferably by the end of 2011. In addition, the composition of the Housing Committee and its operational procedures should ensure that it possesses the competence to make the best decision on the recommended order of beneficiaries. This should include rules to address risks of conflicts of interest affecting Committee members. A ministerial guideline or instruction may be needed to enforce this, as well as regular monitoring (see Section 4.1.4).

- *The role of the Municipal Council* – The provision of the Social Housing Law stating that the Municipal Council approves the selection of beneficiaries should not be interpreted as the Council's right to select/choose who the beneficiaries will be. By the end of 2011 the MPWT should take the necessary steps to ensure that the Social Housing Law or other relevant legislation on local government underlines clearly the Municipal Council's responsibility for setting clear criteria for allocation of social housing and procedures for assessing applicants as well as monitoring implementation of the selection process by the housing units/department and Housing Committee, but allows the Council to change the order of beneficiaries proposed by the Housing Committee only under strictly defined circumstances and with specific written justification/reasoning. For all of this to happen, the MPWT should: (i) provide instructions/guidelines for municipal councils on the formulation and monitoring of criteria for allocation of social housing; (ii) involve municipal councils in their capacity development programs; (iii) contract NGOs to monitor the selection by local governments of beneficiaries of social housing programs.
- *Criteria for allocation of social housing* – The criteria for selection of beneficiaries for social housing are essentially derived from the Social Housing Law, with municipalities attaching their own weights to each criterion. From 2012 these criteria should be clearly coordinated across different social housing programs, based on municipalities' ten-year strategies.
- *Setting Income intervals* – In local loan subsidy programs, municipalities should ensure by the end of 2011 – if necessary by altering the rules of such programs - that the decision-making power to select beneficiaries remains with the local council and is specified in detail to ensure that banks do not distort allocation towards higher-income groups than the targets of the program. The final municipal council decision on beneficiaries should be binding for the bank.
- *Targeting programs for appropriate income groups.* If low-income groups are not intended as targets for loan subsidy programs, this should be made explicit in those programs, and – crucially – other programs that are more suitable for lower-income families (especially housing with social rent) should be designed to ensure that they are appropriately structured for that purpose (see recommendation on rents below). The necessary changes in social programs should be clearly implemented from the beginning of 2012.

- *Rent setting for allocation of social housing* – As soon as possible, the MPWT should take the necessary steps to ensure that levels of social rent should be calculated according to a methodology that ensures they are appropriate for the income levels of the intended beneficiaries. Subsequently, if agreement with the CEB allows, the MPWT should also revise the rent setting methodology for municipalities taking part in the CEB Social Housing Program

#### **4.1.4 Monitoring**

- From 2011, the MPWT should assess the performance and progress of social housing programs and strategies. This monitoring (which is foreseen by law) should take place annually or at least every three years, and should assess whether the major municipalities are implementing their housing programs in compliance with their strategies and the Social Housing Law (for example in the setting of criteria and selection of beneficiaries), how effectively they are using government funds and providing their own contribution, and how they are contributing to the fulfilment of national social housing needs.
- From 2012 the MPWT should monitor the dissemination of information and outreach by municipalities to monitor its effectiveness and identify where complementary efforts/assistance are needed;
- MPWT should prepare and approve the format and outline of a National Annual Report on Social Housing Programs, the first of which should be issued in early 2012. By law, the ministry should monitor the performance of social housing programs, when the latter is funded or co-funded by the national government. On the other hand, by law, the local governments should inform the ministry on the progress of their social housing programs. This relationship can be institutionalised through the Report which would measure performance and identify problems (including possible corruption issues).
- By the end of 2011 the MPWT should issue necessary regulations to mandate the allocation of apartments to families in need prior to the completion of construction, to enable beneficiaries to monitor the quality of construction. This is especially important for apartments build by the NHA where there is no supervision by the municipality during construction.