The Privatization of Land Development and Parastatal Policy in Developing Countries:

A Case Study In Tunisia

by

Julie Chen

Submitted to the
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Abstract

This Thesis explores some of the issues surrounding the Tunisian experience with the implementation of two USAID funded shelter projects. A national land development agency, the AFH, had primary responsibility for the oversight of both projects. The first project, a traditional Sites and Services Project, was perceived as a failure because it experienced a series of delays, many of which were attributed to AFH's lengthy production cycle for serviced land. The second project, a small scale Pilot Project, was an effort to circumvent AFH's operations by contracting out a major part of the project implementation to a private sector developer. Although the Pilot Project did not directly address many of the specific problems of the Sites and Services Project, its success in reducing the length of the project cycle led to the characterization of the project as more "successful" than its Sites and Services predecessor.

My study suggests a different interpretation of AFH's project experiences. The characterization of the Sites and Services Project as a "failure," and the Pilot Project as a "success" obscured the successes of the first project and failures of the second project. My findings show that the Sites and Services Project took a long time to implement in part because it reached the very poor, and that the Pilot Project took less time to implement, in part, because it excluded them. In this case, a blind focus on "speed of implementation" as the over riding project objective resulted in the neglect of another important objective, targeting the poor.

In addition, the characterization of the Sites and Services Project as a "public sector" implemented project, and the Pilot Project as a "private sector" implemented project was not only incorrect, but it focused attention too narrowly on the question of whether the private sector can be more efficient than AFH. My findings show that three factors impact the speed of project implementation: 1) the coordination of public works agencies in the installation of services, 2) the target group to be served; and 3) the incentive structure under which implementation agencies operate. These factors play a critical role in shelter projects, regardless of the public/private mix of implementing agents.

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Abbreviations Used

MOEH - Ministère de l'Equipement et l'Habitat
Ministry of Public Works and Housing

AFH - Agence Foncière de l'Habitat
National Residential Land Development Agency

BH - Banque de l'Habitat
National Housing Bank of Tunisia

CNEL - Caisse Nationale d'Epargne et de Logement
National bank of savings and housing

INS - l'Institute Nationale des Statistiques
National Bureau of Statistics

SMIG - Salaire Minimum Interprofessionnel Garanti
Minimum Wage

SNIT- Société Nationale Immobilière Tunisian
National Public Housing Agency

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Introduction

One of the most pressing problems facing Third World Countries today is the shortage of affordable serviced land in rapidly expanding urban areas. Usually, the shortage is a result of a combination of factors ranging from the inability of public agencies to keep pace with a rapidly increasing demand for services to the existence of a regulatory system that severely restricts financial markets as well as the activities of private sector developers. In addition, the situation is often exacerbated by speculation on undeveloped land. Whatever the cause of the shortage, the result is that the cost of both the urban serviced land and the housing that is built upon it rises well above the means of the middle and lower income segment of the urban population.

There is ample support in both the empirical and theoretical literature for some form of public intervention in the provision of serviced land. The neoclassical economic literature provides one set of rationales for public intervention in the development of land. These arguments are founded on 1) the realities of the economies of scale, 2) the shortage of private capital for large investments, and 3) the potential for monopoly associated with the provision of urban services such as water, sanitation, and electricity (Linn, 1983; Kitay, 1985). Other arguments point to the high cost, both social and financial, of upgrading unplanned settlements that are built by the poor in their effort to satisfy housing needs at the minimum cost. The growing number of these informal, unserviced settlements invariably increases the cost of future service provision, both because of the technical difficulties associated with trying to plan and build basic infrastructure around existing housing (Doebele, 1983) and because of the disruptive process of displacing and relocating families that is sometimes necessary. A third and equally compelling reason for public intervention is that the lower income segment of the urban population often bears disproportionately the burden of shortages in serviced land.

Yet it is one thing to find justifications and define goals for public intervention, and quite another to come up with the appropriate forms of intervention with which to achieve these goals. The disillusionment of economists and development practitioners with the State has resulted in a resurgence in the popularity of privatization as a general solution to what many see as the failure of government agencies to carry out their functions efficiently and equitably. The inefficiencies of a parastatal land development agency in Tunisia has prompted the USAID to reduce the role of this agency in its housing projects by contracting out the implementation of low-income shelter projects to the private sector.

In this paper, I explore some of the issues surrounding the Tunisian experience with the implementation of two USAID funded shelter projects. These two projects are among the first low-income housing projects to be implemented by Tunisia's national land development agency, the Agence Foncière d'Habitat (AFH). The first project is a standard Sites and Services Project which sought to provide credit and serviced plots to low-income beneficiaries. As part of the project, AFH was given credit to develop the plots. The second project that I will examine is a small scale Pilot Project which came out of the Sites and Services Project experiences and was designed to incorporate greater private sector involvement in the provision of public housing.

The Pilot Project was framed as a test for the feasibility of a privatization approach which expanded the role of the private sector in low-income projects through the use of competitive bidding for low-cost land development and housing contracts. This shift in approach was initiated by the USAID in response to a series of problems which created many delays in AFH's implementation of the Sites and Services Project. Although the Pilot Project failed to address many of these problems specifically, it was considered successful because it reduced the length of the housing production cycle. The results of the Pilot Project have led the Tunisian Ministry of Housing and Public Works (MOEH) to abandon the Sites and Services strategy in which AFH was funded for the direct production of affordable serviced plots in favor of a Pilot Project style privatization scheme which limits AFH to the role of a land wholesaler.

In the remainder of the introduction, I will place "contracting out" both in the broad context of the privatization debate and in the more narrow context of how it came about in the shelter sector. In Part I, I will present a brief history of AFH from its creation to the implementation of the Sites and Services Project and the inception of the Pilot Project. I will argue that USAID's decision to pursue privatization was a reactive response arising from its frustration in dealing with AFH on the implementation of the Sites and Services Project. Although many of USAID's criticisms of AFH were valid, the new project focused too narrowly on circumventing the land development agency's apparent inefficiency as a solution. USAID's need to prove that a private developer would implement housing projects "faster" than AFH thus became an end in itself. This myopic approach precludes the possibility for learning from both the Sites and Services Project and the Pilot Project important lessons that are not related to the question of whether the private sector was more or less efficient than the public sector.

In Part II, I will argue that in fact, the question of public vs. private efficiency is neither interesting nor relevant in this context. The two projects cannot be easily compared, and the characterization of one to be a success and the other a failure on the basis of how rapidly housing units were constructed is a gross simplification which neglects the complexity of the problems and achievement of both. Implementation was faster in the Pilot Project, but this is only one objective, which in any case cannot necessarily be attributed to better performance by the private sector firm.

In Part III, I will argue that in the Pilot Project, reducing implementation speed by contracting out to the private sector actually occurred at the expense of reaching the poor. Providing finished units increased costs and reduced choices, factors which represent major barriers to the poor and limited their access to the project. This analysis further undermines the notion that faster project implementation can serve as an appropriate criteria for success.

In Part IV, I identify a few critical issues that must be considered in the design and evaluation of projects that contract out to the private sector: the need for a careful market analysis in efforts to target the poor; the structure of accountability and procedures for assuring quality control; who should be assigned the task of contract oversight?; and how do tasks assigned to existing agencies fit within their organizational goals and constraints?

Finally, I will conclude by summarize the lessons from the project experiences and raise some pressing questions that future projects should address: How can we resolve the tension between the need to implement housing projects quickly and the obligation of the public sector to reach the poorest of the poor? How should project objectives and criteria for success be defined? And how can policy questions be framed so that they do not limit the lessons that we learn from project experiences?

What Does "Contracting Out" Mean?

There are as many lines of argument in the debate about privatization as there are definitions of what privatization constitutes. Government actions influence markets in two ways: through public regulation and through public expenditure. On the regulation side, privatization advocates favor removing excessive regulations which they see as counter-productive. On the expenditure side, a distinction can usually be made between *public financing* and *public delivery* of a service or good. Depending on the school of thought and the nature of the service involved, privatization then involves the reduction of one or both aspects of government activities (Donahue, 1989). In developing countries, the privatization fever has generally taken the form of sales of government owned enterprises in the communications, utilities, or industrial sectors. This form of privatization comes out of a perception, either ideologically based or practically grounded, that debt ridden governments should get out of the business of running enterprises that the private sector can finance and run more efficiently. The general aim of privatization in this context is to reduce the overall size of the government by reducing public investment in sectors where sources of private investment and entrepreneurship is readily available.

In another context, however, privatization implies that governments can better insure the more efficient provision of certain services, over which the public sector should maintain some control, by contracting out to private firms, in whole or in part, the *delivery* of the service. As international donors become increasingly dissatisfied with developing governments' poor implementation of many development projects, there has been a rising interest in experimentation with this form of privatization. The main "problem" that is to be solved, in this case, is the perceived inability of government to provide services efficiently for a number of reasons. These reasons include the existence of inappropriate incentive structures in the bureaucratic system, breakdowns in accountability, and the susceptibility of the state to corruption, all of which can lead to excessive costs of service provision, inadequate response to rising demand, and/or poor quality of output. Whatever the reasons cited, this kind of a privatization solution presupposes that the private sector will do better than the State in the delivery of the service to be privatized.

A Recent History of Government Supported Housing Projects

The history of government involvement in housing in Tunisia is not significantly different from the history of government involvement in housing in many other developing countries. Foreign donors began to support Sites and Services Projects at a time when it became apparent that intervention through the direct construction of housing was not a viable long term solution. Massive housing construction projects often proved to be too costly for the State and failed to keep up with growing demand (Hamer, 1981; Payne, 1984; Mayo et al, 1988). The Site and Services project design was inspired by researchers (Turner, 1970) who looked at how the poor satisfied their housing needs in an environment of high costs and severe shortage. Among their discoveries were that the poor built incrementally and with family labor, lived with minimal service standards, and in many cases placed such a high value on investments in land and housing that they were willing to pay high interest rates to secure some form of informal credit in order to make that investment. Sites and Services Projects were intended to mimic this model of housing acquisition by the poor by incorporating certain strategies designed to accommodate irregular incomes and to lower costs--such as self-help incremental building, recovery of costs through provision of credit, and the use of low cost building materials (World Bank, Sites and Services Projects 1974).

What Went Wrong With Site and Services?

Sites and Services Projects were criticized for three major flaws: First, costs were not as low as they initially appeared. In some cases, inadequate financing arrangements developed for beneficiaries and the failure to account for inflation meant that the projects required an unsustainably high level of government subsidy (Onibokun et al, 1989). In other cases, high standards for services drove the costs up (Payne, 1983). In still other cases, researchers have pointed to hidden costs that, ironically, arise from the initial efforts to lower costs. For example, the location of sites at the urban periphery where land is cheaper increases the travel costs to sources of employment for beneficiaries (Swan et al, 1983; Payne, 1984).

Second, Sites and Services Projects take too long to implement (Onibokun et al, 1989) and could never hope to significantly alleviate demand in most growing cities, a similar criticism of the housing projects that Sites and Services Projects replaced.

Third, Sites and Services Projects do not really address the economic problems of the poor, the issue considered by some writers (Peattie, 1982) to be at the core of the low-income housing problem. In fact, rather than mimicking the process of how the poor meet their housing needs, Sites and Services are said to narrowly limit the choices that are normally available to the poor. This argument asserts that it is precisely the richness of the variations in financing arrangements, plot sizes, available services, and styles of construction that make the "informal market" so attractive and effective for the poor.

After Sites and Services: A Market View of the Housing Problem

The more recent trend in thinking about housing interventions has followed the third criticism in moving toward placing the housing problem in the context of "the market" and how it operates for the poor (Mayo et al. 1988). Although this is not a new idea or approach, it is one that has gained new currency as a result of the growing disappointment with governments' apparent inability to solve their urban problems. Studies of housing markets in many developing cities have surfaced evidence that severe shortages of land and housing exist, not only for the poor, but also for the better off middle income population (Doebele, 1987). This information formed the basis for a redefinition of the housing problem by focusing attention on excessive controls and regulations that create inefficiencies in the related markets in the housing sector. The argument follows that the removal of these flaws in the relevant markets would serve to increase the total supply of land and housing. Solutions are then sought in the form of regulatory, administrative, and/or legal reforms in the finance, construction, and land sectors. These kinds of interventions invariably move the focus away from solutions that are project oriented and toward solutions that are more policy oriented.

To the extent that governments continue to implement housing projects, market advocates have focused attention on "contracting out" as a way to take advantage of the private sector as well as to avoid perceived government deficiencies. In the housing sector, the "contracting out" form of privatization has traditionally held a secure place. Two factors, the existence of positive externalities in better housing and the inability of low and middle income housing to compete with other investments for private capital, serve as solid justifications for government involvement in housing. Two other factors make "contracting out" an attractive tool for governments. First, the need to protect the public interest can be fulfilled through the enforcement of a relatively simple contractual agreement between the State and the private agent. Second, contracting out to the private sector relieves the State of having to solve the difficult problem of creating "nonprofit" incentives for a public agency to minimize the costs of providing the same service.

In Tunisia, contracting out in the housing sector is not a new phenomenon. Many of the country's housing sector agencies are modeled after their Western counterparts and contract out parts of their production process on a routine basis. These same agencies implemented traditional large scale housing projects as well as the more recent Sites and Services Projects funded by foreign donors. It is only because of foreign donors' increasing interest in privatization that new initiatives in "contracting-out" has become a focus of attention in Tunisia.

Part I: A Case of State Intervention in Tunisia

The Creation of a New Agency

In an effort to increase the supply of serviced land and to control inflation resulting from speculation in the land market, the Government of Tunisia, through the Ministry of Equipment and Housing (Ministère de l'Equipement et l'Habitat: MOEH), created a national agency in 1973, the Agence Foncière d'Habitat (AFH), to acquire, assemble, and develop land for residential use. The agency received a $2.5 million grant from the government as an initial capitalization and was granted the power to expropriate land. Its charter required that it sustain its operations through the complete recovery of costs. The government's intent was for AFH to become a self financing development agency that would coordinate with national public works and finance agencies[1] to provide serviced land to individuals, private developers, and to SNIT (Société Nationale Immobilière Tunisian), the national agency whose mandate is to build public housing.

From the Outside Looking In: A Mediocre Agency

From the very beginning, one of the chief objectives of AFH was to control the rapid inflation of land prices. In fact, AFH used its expropriation powers effectively to implement its strategy of acquiring a large stock of land to control the market price. By 1986, over the course of 13 years, AFH had acquired more than 4,000 hectares of land throughout Tunisia, enough to exert considerable influence over the market price for developed land in all of the urban centers in the country. Unfortunately, AFH's ability to control land prices was not matched by equal success in meeting the rapidly rising demand for serviced land.

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[1] These agencies include: SONEDE for water, under the Ministry of Agriculture; ONAS, for sanitation, under the Ministry of Equipment and Housing; STEG, for electricity and natural gas, under the Ministry of Energy and Mines; BH, the national bank of savings and loans for new housing, under the Ministry of Finance.

In fact, AFH's acquisition of a huge inventory of land undermined its ability to service the land. Because the agency exhausted its funds in building up its land inventory, it had to rely on cash prepayment from its clients in order to finance the development. Under pressures from the central government to both increase its production of serviced land and to target lower income groups, AFH began to look for additional sources of funding. The efforts of the agency to raise new funding prompted potential donors such as the World Bank and the USAID to carry out evaluations to determine the source of AFH's problems and its future viability.

A World Bank study (Van Meurs, 1986) sets in stark contrast AFH's stumbling performance to that of a highly effective land development agency in Korea, the KLDC. The study points to mismanagement and the absence of a set of well defined policies as the primary causes of AFH's three major flaws: First, the rate at which AFH serviced land was much slower than the rate at which the agency acquired new land. As a result, AFH's inventory levels of land were much higher than what was needed to maintain their level of production. The study criticized AFH for tying up a large portion of its liquidity that could have been used to finance the development phase of their operations. Second, partly as a result of low liquidity, AFH had an unusually long production period of seven to eight years from the acquisition of land to the completion of a serviced site, as compared to only four years for KLDC; and Third, throughout its operating history, AFH has shown little concern for the serviced land and housing needs of the urban poor.

In addition to the criticisms, the study shed light upon a number of circumstances that have handicapped AFH from the start. First, AFH's initial capitalization of \$2.5 million is surprisingly low, when compared to KLDC's over \$200 million for a production volume of only three times that of AFH. Even if we account for the different land prices (average costs: \$2.86/m^2 Tunisia and \$27.92/m^2 Korea), this still represents a 10 fold difference between the capitalization of the two agencies. The low capitalization forces AFH to raise 80% of its financing by requiring advance payment for plots from its clients before work even begins on the site. This method of raising funds has two important implications: 1) it prevents AFH from reaching low-income people who cannot pay in advance, and 2) AFH must market its land to those who can pay.

Second, AFH's dependence on other public works and regulatory agencies creates delays that are beyond AFH's control. AFH relies on the cooperation of other agencies in almost every aspect of its operations: verification of land titles, expropriation proceedings, and installation of services. AFH lack of control over these other agencies makes the coordination of their activities a difficult task.

Third, AFH, as well as the public works agencies, depend on a relatively small cadre of "authorized," or legally registered private contractors. This limits the public agencies' ability to control the scheduling of work on the sites.

These circumstances have collectively limited AFH's efforts to reach the poor to projects that were funded either by special central government funds set aside for politically motivated housing schemes or by two major foreign donors, the World Bank and the USAID.

The World Bank study raises issues that are not unique to AFH. More significant, however, is the context in which these criticisms are made. The evolution of AFH's image through the eyes of outside evaluators is like that of many other public agencies. Created with one set of problems in mind, the agency sets out to achieve its mandates, only to find that other problems come to the foreground as the original problem diminishes as a result of its efforts (Schon, 1979). Controlling land speculation, producing serviced land to alleviate shortages, and targeting the poor are all legitimate objectives for a public land development agency. At AFH, the relative importance of each of these objectives has changed over the years to reflect changes in the land market as well as changes in the political climate.

In the late seventies, the new agency focused on the immediate problem of assembling and acquiring large tracts of land in order to discourage speculation in the land market. Once land speculation was under control, the increasing demand for serviced land became more apparent and pressing. At that time, the task of providing shelter to the poor was delegated exclusively to an older agency, SNIT, which was in charge of building public housing. AFH's mandate to be a "self-financing" parastatal meant that it had no choice but to market its land to those who could pay. A decade later, a new president and Tunisia's increased reliance on foreign aid focused attention on the difficult problem of reducing public expenditures by more narrowly targeting the poor. AFH's new problem was to find a way to reach the poor. The USAID funded Sites and Services Project was among AFH's first experiences with targeting the poor.

A View From Inside AFH: A Look at Two Low Income Projects

Background on the Sites and Services Project

In 1985, AFH began the implementation of a $24 million Sites and Services Project. The funding for the project was secured through a USAID Housing Guaranty Program which allowed the Government of Tunisia to borrow funds from US capital markets to finance its growing deficit. In return, the GOT committed to an equal level of investment in housing projects for the urban poor. Designed by USAID with the cooperation of the Ministry of Equipment and Housing (MOEH), the Tunisian Housing Bank (Banque de l'Habitat: BH, formerly called CNEL), and AFH, the Sites and Services Project promised to address the two major problems perceived in the land market, lack of credit and the shortage of affordable serviced plots in primary and secondary urban centers.

Goals of the Sites and Services Project

First and foremost, the project goal was to make affordable serviced land and low-interest credit available, as quickly as possible, to the urban poor throughout Tunisia. AFH's failure to reach the poor in the past was due largely to the fact that the general shortage of credit forced the agency to depend on their clients to pre-finance nearly all of their operations. The shortage of credit also meant that low-income people were unable to obtain loans for housing. The project proposed to solve the credit crunch first, by providing short term financing for AFH to develop land already in its inventory and second, by providing mortgage loans to low-income beneficiaries for the purchase of a 80 to 150 m^2 serviced lot and the construction of a 25 m^2 "core housing unit."

The project was to provide 6,350 serviced plots and an equivalent number of mortgage loans over a period of four years. Beneficiaries of the project would earn less than the median income and pay no more than one fourth of their monthly income in order to sustain their mortgages. According the project feasibility study, the cost of the 100-120 m^2 plot and the construction of 25 m^2 core unit would fall in the range between 2,700 TD ($3,780) and 3,000 TD ($4,200) and would be affordable to approximately 75% of the urban population in 1984.[2]

The Implementing Agencies and the Division of Responsibilities

The Sites and Services Project relied on the joint and coordinated efforts of AFH, BH, and the MOEH. In principle, the division of responsibilities was designated as follows: AFH held primary responsibility for providing the serviced lots and marketing them to beneficiaries; BH was responsible for administering the pre-financing loan to AFH and the mortgage loans to the beneficiaries; and the MOEH, through its local representatives, was responsible for providing technical assistance to project beneficiaries and monitoring the owner construction of housing.

The Process

AFH began the first phase of the project by subdividing selected sites and marketing them to beneficiaries. Applicants for low-income housing, who may be referred by local government officials, central government offices, or BH, file applications directly with AFH for a serviced lot. Upon completion, the application, consisting of a series of official documents which certify basic information about the applicant, such as monthly income, occupation, birth date and residency, and non-ownership of land, is passed on by AFH to

[2] USAID, HG-004B Project Paper, 1984.

the Beneficiary Selection Committee. This committee consisted of representatives from all the implementing organizations, AFH, BH, the MOEH, as well as from local government.

Selected beneficiaries were then required to open an account at BH, save the 20% down payment, and apply for a building permit. Once they received the mortgage from BH, beneficiaries were able to purchase a plot from AFH and then had two years to complete the construction of a $25m^2$ core unit. During the last phase of project, the MOEH provided technical assistance and quality control for the design and construction of the core units.

Why a Pilot Project ?

Two years into the implementation of the project, it became clear that efforts to minimize the time that it would take for AFH to make serviced land available to low-income people had little impact. The project was behind schedule and the long list of causes for delay made it difficult to find general solutions. One persistent problem was that AFH seemed to have over-estimated the level of demand for project plots, especially in secondary urban centers, and beneficiaries were slow to purchase plots in some locations. In other locations, unexpected delays in the public works reduced potential beneficiaries' confidence in the project and caused them to withdraw their savings from the bank. Because beneficiaries often took two years or longer to save the down payment, the withdrawal of their savings represented a major setback to the completion of the project. In still other locations, local government opposition to the project because of its proximity to tourist areas led to relocation of the site.

Beyond the intractability of the implementation delays, the most serious problem was that AFH did a poor job of reporting to USAID on the progress of the project. The reports were produced at irregular intervals and contained inconsistent information. In spite of numerous meetings between USAID project officers and AFH officials, project data often could not be verified and appropriate documentation was rarely available. This not only led to the appearance of disorganization and poor project management on the part of AFH, but also created a sense of distrust between USAID and AFH which made it difficult, if not impossible, for the two agencies to jointly identify specific implementation problems.

USAID's attempts to address the project implementation problems raised questions about the objectivity of AFH's site selection process, AFH's ability to market land to low-income beneficiaries, and AFH's motivation to develop the sites in an efficient and timely manner. These questions were not part of a careful approach toward identifying the sources of the problems with the Sites and Services design, but rather, they reflected USAID's increasing frustration with and lack of confidence in AFH's ability to implement low-cost serviced land projects quickly . Because AFH's project tracking and reporting was poor, it was relatively easy to attribute many of problems in the Sites and Services Project to AFH's incompetence and institutional weakness.

AFH had no "marketing unit" and had to rely on perceptions and vague intuitions of local government officials and its own field offices staff (Data Collection Report for HG-004B, 1991). The agency clearly had no technical capacity for analyzing local land markets and verifying that adequate demand existed in the chosen locations for the Sites and Services plots. Where demand did exist, AFH had not developed a systematic way to identify beneficiaries. Instead, staff who were in charge of the Sites and Services Project waited for applicants to come to AFH, trusting that word of mouth would disseminate information about the project to other beneficiaries. The efforts that they did make to inform local officials of the project and eligibility requirements apparently were botched.

Furthermore, in the one area where the agency could claim to have experience and expertise--the actual subdivision of the sites and the coordination of public works--AFH had a hard time keeping to the project implementation time table. Once the project failings were attributed to either AFH's incompetence or its lack of capacity and resources, the solution seemed clear: contract out the tasks that AFH did poorly to circumvent the agency's inefficiencies but at the same time, continue to take advantage of the agency's large inventory of urban land by getting AFH to sell its land wholesale to private developers.

Getting Private Developers to Do What AFH Could Not or Would Not Do

The Pilot Project differed in design from the Sites and Services Project in three key elements: First, it reduced the role of AFH significantly to the selection of sites from its inventory for wholesale and the implementation of a competitive bidding process for private developers. Second, the contractor selected by AFH would receive subsidized financing from BH and had two years to install on-site infrastructure, construct core housing units on the plots, and market the product to beneficiaries. And third, beneficiaries no longer were selected through a selection committee. Instead, the contractor was encouraged to coordinate with BH to market the housing units to the bank's clients. Although other objectives, such as "the development of the private sector" and the "creation of a 'better looking' neighborhood," were later added to the project description to increase the appeal of the Pilot Project design, the single most important objective for USAID and MOEH was to find a way to circumvent AFH's operations to the greatest extent possible in order to reduce the time required to implement the project.

Early Results

AFH selected the contractor for the Pilot Project, Société le Logement from a total of five bids submitted by four private firms and SNIT, the national public housing agency. The bid submitted by the contractor specified the construction of 248 expandable core housing units that ranged from 31 m^2 to 45 m^2 in size. The sale price of the housing, which ranged from 8,000 TD to 12,400 TD, was fixed by the estimate. After a remarkably short implementation period of 4 years (as compared to over 6 years for the Sites and Services Project), all of the units were successfully marketed as planned and beneficiaries moved into the housing units at the beginning of 1992.

Because of USAID's intense interest in implementing projects quickly, the Pilot Project was declared a success because it took so much less time to implement than the Sites and Services Project. Even before a final evaluation could be done for either project, USAID had decided, with the support of the MOEH, to finance a larger housing project that would replicate the Pilot Project design. After being blamed for so many flaws, AFH seemed to welcome the declaration of success and agreed to the new project. The momentum of the Pilot Project provided the necessary confirmation that the burgeoning private sector in the housing industry was quite capable of taking over the public housing scene.

Part II: Interpreting the Performance of the Pilot Project: Is Privatization the Key?

In this section, I will first present my findings on how the public housing production cycle was reduced in the Pilot Project. I will argue that the reasons for speedier implementation cannot be attributed to greater private sector involvement, *per se,* even though it may have been a contributing factor. In addition, I will examine how "speed of implementation" as a criterion for success evolved for USAID funded shelter projects in Tunisia and pose the question of whether "speed" can be a reasonable objective in and of itself. I will conclude this section with the suggestion that although the question of how the private sector can play a constructive role in the implementation of public shelter programs is an important one, the answer depends on which objectives are being pursued.

Why the Pilot Project Took Less Time to Implement

Four major factors led to the dramatic reduction in the Pilot Project implementation time:

1) The private contractor, Société le Logement, simultaneously implemented what is normally considered to be two consecutive operational phases at AFH: a) the installation of on-site infrastructure and b) the construction of the housing units.

2) The private contractor selected potential beneficiaries from existing BH account holders who already had substantial savings. This eliminated the time that beneficiaries of the Sites and Services Project usually took to save the down payment.

3) The implementing agencies made special efforts to ensure the success of the Pilot Project: a) AFH selected a site in Tunis, where conditions were more favorable for the smooth implementation of the Pilot Project, and b) USAID officers intervened to improve the coordination of the Tunisian public water and sanitation agencies, SONEDE and ONAS.

4) The Pilot Project succeeded in creating profit incentives for the contractor to minimize operational delays in order to transfer the housing units to beneficiaries as quickly as possible.

1) Simultaneous Housing Construction and Installation of Services:

Although it appears at first glance that the private firm was able to do in two years what AFH took more than 5 years to accomplish in the Sites and Services Project, a closer look at how the contractor was able to achieve this shows that the speed cannot be necessarily be attributed to better management on the part of the private firm. The fact that production activities overlap in different ways in the Pilot Project and the Sites and Services Project alone can account for the time differences.

In the Pilot Project, the construction of the housing units and the installation of the on-site infrastructure were carried out at the same time by the private contractor. In the Sites and Services Project, these two activities were carried out separately and by different agents. My interviews with AFH operations managers who implemented the subdivision and the development of the project sites indicate that it took an average time of two years. Once the plots were sold, beneficiaries were responsible for the construction of their own homes. The pace at which this took place varied widely from one family to the next. The Sites and Services Project rule that construction of a core unit had to be completed within two years of the sale of the plot was very loosely enforced by the MOEH. Because the production processes and the assigned tasks in the Pilot Project and the Sites and Services Project are so different, it is impossible to determine whether the private contractor was faster than AFH. The analysis of the implementation process suggests that even if the private contractor was no more efficient than its public sector counterpart, AFH, the differences in the organization of the tasks alone can produce the apparent time advantage achieved in the Pilot Project.

2) Targeting BH Clients

Another way in which the contractor was able to avoid some of the delays experienced by the Sites and Services Project was to target BH clients who already had substantial savings. Because there is such an intense shortage of affordable housing in Tunis, the Pilot Project had a waiting list of potential beneficiaries almost from the first day of its implementation. In contrast, one of the factors that delayed the completion of the Sites and Services Project was that many of its beneficiaries had little or no formal savings when they were first selected for the program. In some cases, beneficiaries took more than two years to save enough for the down payment because of their tenuous economic situations. For example, some beneficiaries did not have secure employment and found odd jobs on a daily basis. Unexpected events, such as weddings, funerals, or illness, represented more immediate needs which strained their ability to save. Although these conditions may also have applied to some of BH's savings clients, the fact that beneficiaries could be selected for the Pilot Project on the basis of their level of savings was key to reducing delays that may have occurred in the property transfer process once the construction of the project was complete.

3) Special Efforts and Unique Features of the Pilot Project

Of particular importance to the question of replicability is the role of special efforts or unique circumstances in insuring the success of a pilot project. Special efforts are worth examining because they provide valuable insight into what constitutes appropriate responses to real constraints which occur during implementation. At the same time, unique characteristics may also turn out to be critical variables that have an important impact on the outcome of the project. The Pilot Project implementors cited two particular elements as important contributors to the shorter project cycle. First, the Pilot Project's location in Greater Tunis where the demand for housing is more intense than else where in Tunisia meant that marketing the project to beneficiaries was a relatively easy process. AFH officers pointed out that the Greater Tunis sites of the Sites and Services Project experienced fewer delays than did sites in other towns.

Second, USAID officers made special efforts to intervene with the public works agencies, SONEDE (water) and ONAS (sanitation) to improve the coordination of service installation. Under normal procedures, subcontractors for one agency would carry out their contracts independently of the subcontractors for the other agency. The potential for coordinating these two agencies was limited to scheduling the work in such a way that the respective subcontractors did not cross paths. Because the typical contract for both agencies included the final phase of filling in the trenches after the pipes were laid, subcontractors of one agency were reluctant to leave the trenches open for the subcontractors of the other agency. This resulted in some duplication of work which could be prevented if the public works agencies would agree to re-specifying their contracts.

Similar efforts were made for the Sites and Services Project, but were less successful. The Sites and Services Project was of a much larger scale than the Pilot Project and covered numerous sites which were located in all regions of Tunisia. The sporadic and reactive style of intervention used by the USAID worked on the Pilot Project site, but was not as effective in the larger project, in part, because these efforts could not be sustained. Also, the high profile of the Pilot Project and its proximity to Tunis, where the USAID and the nerve centers of all of the implementing agencies were located, made it easier to verify whether formal or informal agreements were carried through by the various parties. It remains a question exactly why these temporary changes in procedure were difficult to institutionalize in this particular case, but there may be little incentive for SONEDE and ONAS to do so.

4) Creating Incentives for the Contractor

One of the most successful aspects of the Pilot Project has to do with how the contract was structured to create incentives for private contractor to implement the project quickly. A case may be made that ultimately, AFH failed to keep the Sites and Services

Project on schedule because the agency did not have sufficient incentive to minimize the potential delays that would be faced by any project of this scale. To the extent that this holds true, the Pilot Project can be instructive on the question of first, how to motivate implementing agents to do the 'right' thing; and second, whether similar incentive structures can be created for a public agency like AFH. The decision to change procedures and processes within the public sector would then depend on the potential trade-offs that may have to be made between the achievement of different, and sometimes conflicting, public sector goals.

The key to keeping projects on schedule lies in the question of whether the party who has to pay the cost of project delays is also the party who has control over minimizing the delays. In the Pilot Project, the private contractor bears the cost of the financing which he receives from BH to do the development. The prices at which he can market the housing units are fixed by his bid. These prices reflect some expected level of costs, they include a regulated margin of profit, and they cannot be changed once the project begins. Because the contractor's total financing costs are time sensitive, his potential profit from the project naturally decreases as time passes. Thus in this case, the person who bears the cost of unexpected delays is the contractor, who also has the ability to limit those costs.

Why doesn't the same logic motivate a public agency like AFH? The answer lies in the way AFH is mandated by law to price the land that they develop. The single most significant aspect of AFH's pricing policy is that it is based on historical cost rather than replacement cost. In the face of rapid inflation, AFH prices generally are much lower than the prevailing market price for serviced land. The other important aspect of the pricing policy is that AFH is allowed to pass on to the buyer all of the cost of administration and interest charges on capital borrowed to pay for development work. The administrative cost and interest charges, although they increase with time, represent a small fraction of the price that is charged on the land. The fact that the overall price of AFH land is so far below the market price obscures the increases in price due to higher financing costs. AFH's ability to pass the administrative and financing charges directly on to the buyer, together with the effects of a historical pricing policy, means that agency does not operate under the incentives that exist for private developers to reduce project implementation time.

In summary, the speed with which the Pilot Project was implemented may not be due to more efficient private sector management. Instead, an analysis of the conditions which led to faster implementation highlights some important factors which has relevance for both private and public agents. The coordination of the public works and construction by one agent may result in significant time gains in shelter projects. The selection of beneficiaries based on income and access to savings minimized delays that the Sites and Services Project experienced. And finally, the key to achieving project goals may depend on how effectively incentive structures encourage the "correct" behaviors.

How Speed of Implementation Became a Criteria for Success

To a large extent, whether a project is deemed a success depends on the criteria that have been defined for success. Within the context of a project, success is usually measured by the attainment of some tangible and measurable attributes. The particular set of measures which guide project goals contain an implicit assumption that these measures serve as an appropriate proxy for measuring the extent to which broader policy goals are reached. In the Pilot Project, the proxy for achieving the national housing policy objective to provide affordable shelter for the poor was the speed at which government shelter projects produced housing. Project planners perceived slow public implementation of shelter projects as a major barrier to achieving higher rates of public housing production. Contracting out a large part of AFH's activities to the private sector was the solution to be tested in the Pilot Project.

Those who initiated, designed, and implemented the Pilot Project narrowly defined success to mean the successful reduction of the total amount of time that it takes to implement a low-income housing project, from its inception to the delivery of the output, a finished, "expandable" unit. This criterion for success represents a shorthand encapsulation of the process of problem and solution identification which took place before and during

USAID's preliminary evaluations of the Sites and Services Project implemented by AFH. Even before the implementation of the Sites and Services Project, USAID and MOEH officials had jointly identified the long production cycle of public agencies for serviced land and housing as one of the major barriers faced by government efforts to meet the increasing demand for affordable housing in urban Tunisia.

Previous to the Sites and Services Project, MOEH's experience with low-cost housing programs was shaped primarily by its oversight of the public housing agency, SNIT, which has a long history of implementing housing projects that were plagued by problems such as poor coordination of service provision, low-quality of construction, and high administrative costs exacerbated by slow implementation. AFH's disappointingly slow implementation of the Sites and Services Project only reinforced MOEH's lack of confidence in its parastatal agencies' ability to improve upon past performance.

The Sites and Services Project also represents MOEH's shift away from a shelter sector intervention which had traditionally focused on increasing the number of units of publicly constructed housing. One of the most serious problems that plagued SNIT was little or no coordination of service provision, which meant that SNIT actually constructed housing projects that some times waited months or years to be hooked up to trunk infrastructure. Because the installation of modern household plumbing was the standard for SNIT housing in urban areas, units that were not hooked up to services could not be occupied.

The new approach, to speed up the public production of serviced land, was as much MOEH's response to SNIT's coordination problems as it was the Ministry's attempt to deal with another agency out of frustration with SNIT. As the major public agency responsible for providing serviced land for residential use, AFH was a natural testing ground for the new policy. Although AFH took steps to minimize the implementation time, the Sites and Services Project became the last in a series of public housing projects which failed to decrease the production time for affordable housing. As a result, AFH became a target for reform and the USAID's push for increasing the private sector role became increasingly more appealing to the MOEH.

The packaging of the Pilot Project as a solution to the perceived problem of AFH inefficiency specifically, and public sector inefficiency in general, has important policy implications for managing publicly owned enterprises. What lessons can we draw from the Pilot Project about the way to create change in a public parastatal? If the projects implemented by AFH were part of a controlled experiment, with the private firm pitted against its public counterpart in a race to produce the highest quality housing at the lowest cost and in the shortest amount of time, then the results would have been undeniable. The project which involved the private sector took only four years to implement, compared to the public sector average implementation time of five to seven years (Montchoisi, 1990). But this was not a controlled experiment, and in fact, very few conditions stayed the same in the transition from the Sites and Services Project to the Pilot Project. The set of conditions which changed also tended to bias the results in favor of the Pilot Project.

Aside from the necessary differences in location and scale, there were significant differences in process as well. For example, the set of people, organizations and institutions involved in the implementation of the project was different. Local government no longer played a role in the selection of beneficiaries in the Pilot Project. Beneficiaries designed and built their own homes in the Sites and Services Project, but could only purchase the finished unit in the Pilot Project. New tasks, such as the supervision of the competitive bidding process were created for AFH in the Pilot Project. Project output was also different. The Sites and Services product was serviced lots and credit for land purchase and construction. The Pilot Project product was finished housing units and mortgage loans to cover their purchase. Such differences in the outputs of these projects also raises the question of whether the target beneficiaries has remained unchanged, an issue that I will deal with in greater detail in the next section.

Conclusions for Part II

Clearly, the two projects are not easily comparable and the simple conclusion that the Pilot Project took less time to implement than the Sites and Services Project cannot support an assertion that the former is a "success" and the latter a "failure." A separate question, but equally important in this context, is whether "speed of implementation" should even serve as a legitimate end, exclusive of other objectives. The Pilot Project achieved certain objectives, but ignored others. Better coordination of service agencies and creating incentives for minimum-cost housing construction were important accomplishments, but do they serve the interests of the poor in this case? Who really benefits from the pursuit of a shorter project cycle?

The Sites and Services Project took longer to implement in part because it reached the very poor. How can we reconcile this with the project's failure to keep to an implementation time table that is dictated by loan disbursement schedules? USAID and MOEH's focus on the question of whether greater private sector involvement in housing projects resulted in "better" project performance obscured the more crucial question of what constitutes better performance in the first place. In the next section, I will present evidence to show that a decision to pursue the goal of fast implementation of public shelter projects is not a neutral one with regard to who benefits from these projects.

PART III: A Different Look at the Pilot Project: Who Does it Benefit?

Development projects invariably have multiple objectives. Often, the difficult task lies not in finding a way to achieve a particular objective. Rather, it lies in achieving a balanced pursuit of potentially conflicting objectives without compromising the most important ones. In this section, I will explore the speed of implementation and its implications for reaching the poor. I will show that the Pilot Project achieved a shorter production cycle, to a significant extent, at the expense of reaching the poorest. In this case, the "need" to produce housing more quickly overshadowed the more critical objective to target the poor.

First, installing on-site infrastructure at the same time as constructing housing units saved implementation time, but it had two negative implications for reaching the very poor: 1) The minimum initial investment increased in the transition from the Sites and Services Project to the Pilot Project because the total cost of the product increased. This excluded the poorest beneficiaries who could not afford the larger initial down payment. 2) Providing housing instead of a serviced plot limits beneficiaries' choice in the timing and level of housing consumption. Second, targeting BH clients who already have savings insures that beneficiaries are ready for immediate transfer of the housing units at the completion of construction and minimizes the time that the units stand vacant. This process serves those who are the closest to securing formal credit for housing on their own rather than targeting the neediest.

Housing Instead of Serviced Land

Although the ultimate product of both the Sites and Services Project and the Pilot Project are the same: a serviced lot and an expandable core housing unit, providing a finished housing unit meant higher total costs which reduced accessibility for the poor and reduced their consumption choices. The minimum cost of a house from the Pilot Project in 1991 is around 8,000 TD (Pilot Project document). Under the BH's financing terms for the project, beneficiaries pay a down payment of 800 TD and are eligible to borrow 7200 TD at 8.25% annual interest rate. The monthly payments for a 20 year term mortgage averages 60 TD. In contrast, the BH provides mortgage loan packages of around 2,700 TD for the beneficiaries of the Sites and Services Project to cover the estimated 3,000 TD cost of acquiring land and constructing a home in the Greater Tunis area (Sites and Services Project document, 1991). In 1991, these 20 year term mortgages required a 10% down payment of 300 TD. The monthly mortgage payments were 23 TD.

The significance of these differences in amount of down payment and monthly payments is highlighted by the way in which eligibility is determined for the projects. USAID requires that the cost of the project to beneficiaries not exceed one third of the family's income. The BH calculates the minimum monthly income required to be eligible for a project loan to be three times the monthly mortgage payment. Minimum monthly incomes required to be eligible for the lowest cost options of the Pilot Project and the Sites and Services Project, are respectively, 180 TD and 70 TD. The USAID also restricts access to its housing projects to those who earn less than the median income, which was estimated in a MOEH report to be 273 TD/month at the end of 1990 (Montchoisi, 1990; sources for the income data come from the INS, the Tunisian National Statistics Bureau). Using the income distribution estimates included in the same report, the Pilot Project reached those who earned between 273 TD and 180 TD, a range which falls roughly in the bottom 30th to 50th percentile of the income distribution. The Sites and Services Project reached those who earned between 273 TD and 70 TD, representing the bottom 10th to 50th percentile in the income distribution. In effect, the Pilot Project excludes those whose incomes fall between the lower 10th and 30th percentile of the income distribution.

Why the difference in accessibility between the two projects?

The Sites and Services Project is more accessible[3] to the poor for two reasons that are related to the assumptions used by USAID to estimate beneficiary costs. The size of the mortgage loan is based on these cost estimates and sets the lower limit for income eligibility. The first assumption which leads to a lower cost estimate is that the Sites and Services mortgages will cover the expenses of building a 25 m^2 core unit, which is smaller than the 32-45 m^2 units built in the Pilot Project. The second assumption is that construction costs will be reduced by beneficiaries who will either build their home themselves or use informal sector builders. The enormous price difference between housing built by the larger scale, formal sector development firms and the smaller, sometimes unregistered builders is not unique to these projects and is well documented in Tunisia by the MOEH (Montchoisi, 1990).

Sites and Services Project beneficiaries almost universally claimed that the mortgage amounts they received fell short of covering the construction expenses that they actually incurred. In fact, the construction cost estimates for the Sites and Services Project had never been revised and did lag behind 1991 costs by about 25%.[4] But in this case, accessibility to home and land ownership does not hinge on whether beneficiaries received enough credit to build what they deemed to be a sufficient amount of housing. Rather, accessibility hinges on whether beneficiaries were given enough credit to get over the hurdle of starting a home construction project. Ironically, an outdated cost estimate in the Sites and Services Project made the project more accessible to the poor as time passed by keeping the

[3]Though my point here is that a housing project which employs formal sector construction firms has less potential for reaching the most needy, the question of whether the Sites and Services Project *actually* reached those that the Pilot Project would exclude is a different question and more difficult to answer. Complete income distribution data for the Sites and Services Project have not been compiled, but my observations from field visits to Sites and Services Project sites outside of Tunis indicate that the project, in fact, did reach many families who would not have been eligible for a Pilot Project style program.

[4]I estimated in the summer of 1991 in a report for USAID on the Sites and Services Project HG-004B that the costs of building a 25 m^2 core unit had risen to about 4,000 TD.

mortgage amounts, and therefore the down payment and the monthly payments, low as people's incomes rose.[5]

Limited Choices in the Pilot Project Style Development

By providing finished housing units to the poor, the Pilot Project restricts the beneficiaries' choices even more than the Sites and Services Project that it replaced. In this respect, the Pilot Project is a step backward in the public sector's ability to meet the wide variety of economic needs faced by the poor. In the 1980s, researchers criticized Sites and Services Projects for their tendency to standardize the shelter product offered to beneficiaries in their effort to lower costs (Peattie, 1982). This phenomenon forced families with different needs and resources to consume a uniform level of housing, limiting their ability to make tradeoffs between different consumption needs. My observations of the patterns of construction on Sites and Services Project sites in Tunisia reflect the incremental style of development documented for other locations (Turner, 1970; Hamer, 1981). Sites and Services Project beneficiaries almost never build finished 25 m^2 core units with their construction mortgages. Instead, they prefer to build larger, unfinished units, postponing the expense of interior and exterior finishing, floor tiles, doors, windows, and porcelain bathroom fixtures.

In addition to limiting consumption choices, the Pilot Project also limits economic opportunities. Entrepreneurs with more resources in the Sites and Services Project would build a store front adjoining their homes and open up shop to serve the neighborhood. This kind of economic opportunity for beneficiaries is greatly diminished in a formal development such as the Pilot Project where the commercial space was planned and built by the developer as part of the project. The formally designed and built "boutique" style commercial buildings are necessarily marketed to business people outside of the community because no one who lives in the public housing can possibly afford the investment.

[5] In 1985, the Sites and Services Project was affordable to 75% of the Tunisian population, in 1991, it was affordable to 90% of the population.

Targeting BH Clients: Serving the Better-Off

Within the now narrower income group, who gets selected for the Pilot Project? In many ways, the applicant identification and selection process for the Sites and Services Project was more informal and messy than the Pilot Project process. The informality of the Sites and Services process created opportunities for local discretion that did not exist in the Pilot Project. Though the discretion has the potential for misuse, it was also used by local officials to advocate for especially needy applicants. In contrast, the more 'rational' marketing process of the Pilot Project was narrowly guided by the incentives of BH and the private developer. The private developer was anxious to market his units quickly and found an ideal marketing partner in the BH project officer, who facilitated his efforts to target the bank's savings clients. This process selected the better off applicants because it targeted people who were already connected to the formal finance process and very close to securing formal financing on their own.

In the Sites and Services Project, potential applicants were recruited by a loose network of local government offices and the local branch offices of AFH and BH. Although AFH and BH project officers conducted a few local outreach sessions[6] when the project first began, these early efforts were minimal. Once applicants began to come forward, AFH relied mostly on word of mouth and local government offices to spread information about the project. Beneficiaries were selected by a large committee of local government representatives, local representatives of the central government, an AFH project officer, a BH project officer, and a MOEH official. The relatively cumbersome committee selection process was set up by the MOEH to guard against politically motivated diversions of benefits at the local level or within the implementing agencies.

According to project officers who attended the selection meetings, this process was often guided by local representatives who, as members of their community, could often

[6]These outreach sessions involved setting up information desks in a well traveled place in towns where project sites had been located. Shortages of staffing assigned to the project by both BH and AFH made it impossible for agency officers to continue these sessions throughout the remainder of the project.

contribute additional information about applicants from their jurisdiction. For example, sometimes the representative would have information to show the credit worthiness of the applicant. Other times, the representative would have information that would disqualify an applicant from the project, such as for someone who already owned a house (which normally disqualifies him from the project) but had registered it under the name of his married sister who lived with her husband. This informal process clearly leaves a high level of discretion to local officials and may be vulnerable to political motives. But overtly political moves are checked to some degree by the presence of project officers from the implementing agencies who often have contact with potential beneficiaries. The variety of interests represented in the selection committee insured the selection of a relatively heterogeneous group of beneficiaries, some of whom may have been recipients of political favors, but others of whom actually did have greater need.

This selection process was criticized by some USAID project evaluators as one of the steps that may have contributed to the delays experienced by the Sites and Services Project. AFH and BH project officers pointed out, however, that bottlenecks in project implementation did not result from slow selection committee action. Rather, they resulted from the fact that many beneficiaries had no initial savings when their applications were approved. These beneficiaries then took up to 4 years to save the required down payment for the land and construction loan. This was the main cause of delay on project sites located in towns with depressed local economies where the majority of the beneficiaries took a long time to save.

In the Pilot Project, the private developer worked with BH officers to identify and select potential beneficiaries. This coordination was possible in large part because both the private firm and BH could gain from the cooperation. BH is a national savings bank set up expressly for the purpose of financing investments in housing. A person who opens a savings account with BH signs up for one of a number of prepackaged "savings contract" options. The contract specifies 1) the length of the savings period, 2) the amount to be saved during that period, and 3) the amount that the client would be eligible to borrow at the end of the savings period (usually between 3 to 4 times the amount saved). The contract matures when the client has saved the contracted amount. In recent years, BH has been exceptionally successful in mobilizing new savings. At the same time, the bank has fallen short of targets for issuing loans as its clients' savings contracts mature because housing prices have tended to rise above the contracted amount of the mortgages. Consequently, the Pilot Project had a waiting list for the housing units almost from its inception.

Conclusions for Part III

These are not arguments in favor of implementing more Sites and Services Projects. Rather, they bring to light the tension which exists between achieving shorter housing production cycles and reaching the poor. Local government involvement in the beneficiary selection process may have enhanced the central government agency's ability to reach the poor in the Sites and Services Project. But the selection of the very poor meant that the project had to wait for beneficiaries to save. The Pilot Project was implemented more quickly, but in part because it excluded the poor by explicitly targeting the better off. The construction of finished housing also contributed to a shorter project cycle, but the project output is less flexible and provides fewer choices to those that it benefits.

The success of the Pilot Project in finding buyers may also be evidence of a market segment that is currently unserved by either the private or public sector. The question of how the needs of these people can best be served must be answered in the larger context of the housing sector goals of the Tunisian government. The beneficiaries of the Pilot Project are clearly people who have access to credit and are both willing and able to pay for better housing. Why are they not being served by the private sector? Are government subsidized projects the most efficient way to reach this market?

Finally, no one can deny that time is an important dimension in projects aimed at addressing the rapidly increasing demand for affordable urban housing. Presumably, a rising urban population somehow must translate over time into a rising demand for housing.

But by what criteria is providing finished housing a better shelter strategy than to provide serviced land to meet this increasing demand? Should an increase in the "supply" of affordable housing be measured narrowly by the "number of finished units" produced by a housing project? Or is it more appropriate to develop ways to evaluate project success by measuring increased access to better housing by the poor? If the goal of the Tunisian government is help the poorest mobilize and apply their limited resources toward their own housing needs, then special consideration must be given to their consumption preferences. Ultimately, the cost of faster housing construction may simply be too high for the poorest beneficiaries to bear.

PART IV: Second Thoughts On "Contracting-Out"

In section 1, I presented a history of how "public inefficiency," as embodied by experiences such as AFH's implementation of the Sites and Services Project, came to be framed as a central problem which precludes the efficient implementation of Tunisia's shelter policy. In section 2, I examined more closely the "success" of the Pilot Project experiment to address this problem and I argued that private vs. public efficiency issues were too narrowly defined by the USAID and MOEH. The length of time that it takes to implement a project was an inappropriate focal point for evaluating project performance. In section 3, I focused attention on the important but unasked question: "who benefits?". I showed that the Pilot Project achieved "faster implementation" largely at the expense of reaching the poorest. Providing finished housing built by a private contractor to people with savings reduced the project cycle, but it also excluded the poorest who don't have savings and for whom the increased costs and limited choices serve as further barrier. The fact that the project was marketed so readily may also have revealed a market segment that is quite able to pay but not being served by either the private or the public sectors.

Here I will raise a few important questions about whether "contracting-out" can work. I will identify four critical issues that must be considered in evaluating whether contracting out is an appropriate mechanism for meeting shelter goals: 1) the need for a careful market analysis in efforts to target the poor; 2) the structure of accountability and procedures for assuring quality control; 3) who should be assigned the task of contract oversight?; and 4) how do tasks assigned to existing agencies fit within their organizational goals and constraints?

The Need for Market Analysis

Both the Sites and Services Project and Pilot Project relied on AFH to select sites in locations where the project can be marketed to the poor. The Pilot Project was only located at one site and does not test the ability of AFH to "know the market" in cities other than Tunis. For AFH, low-income projects are a relatively new task and still represent a very small proportion (less than 10%) of total agency operations. As a result, the agency has little experience with identifying this market segment and responding to the needs of the poor. The experience of the Site and Services Project shows that there are important regional differences in the preferences and ability-to-pay of the poor. For example, AFH had trouble marketing 120 m^2 plots to people who lived in the south and interior towns because families were not accustomed to such small plots and because they were either not willing to or could not afford to pay the price difference between serviced land and unserviced land.

This raises the question whether there really is a "shortage" in affordable housing in urban areas outside of Tunis, Sfax, and Sousse, the three largest cities of Tunisia. Without some information on the local markets for land and housing, claims that there are housing "shortages" is hard to justify. The question of how to identify the poor is also problematic. Although people who live outside of the three largest cities have lower incomes, their cost of living is also lower. Furthermore, what constitutes an "acceptable" minimum standard of living is also subject to local differences once these projects move out of the major cities. All of these issues point to the need for market analysis to determine how to best design housing projects to meet desired objectives.

Accountability and Quality Control

Another issue that the Pilot Project does not adequately address is the problem of contract enforcement. An incentive structure is in place for the private developer to implement the project quickly, but the same incentive structure can drive the private developer to cut corners on the quality of materials and construction. AFH had primary responsibility for monitoring the activities of the private developer during the implementation process of the Pilot Project, but it is not clear whether a path of recourse exists if defects are discovered once the units are transferred to beneficiaries.

The question of how quality control will be achieved, even during project implementation, is unexplored territory. The basic problem of enforcement remains that AFH must negotiate with BH over the control of the contractor's resources. BH's interests lie first in providing financing to the private contractor, and second, in issuing mortgages to beneficiaries. Assuming that AFH actively takes the role of protecting the beneficiaries' interests, it would not be hard to imagine a situation where the agency's efforts to get the contractor to comply with quality standards would threaten the private firm's solvency and therefore, BH's interest in protecting its investment. Conflicting interests aside, there is currently no mechanism in place for AFH to enforce the contract. Once AFH sells the land to the private developer, nothing compels the agency to express a continuing and diligent interest in the project.

Should AFH Even Be In Charge of the Contracting out Process?

The problems of enforcement already raises questions about whether AFH is the correct contract oversight agency. In the Pilot Project, BH and AFH chose the contractor together, but with the USAID looking on with intense interest. What will happen in the future? Conflicts of interest between AFH and BH can occur at the beginning of the contracting out process when a private firm is selected to implement the project. Naturally, BH would want to select a developer who is a good credit risk, i.e., someone who has a good past record of project completion. In contrast, AFH is more likely to focus on issues of cost and quality of the product provided in making a selection. Achieving a balance between these interests would be ideal, but the assumption that AFH will review bids carefully is a big one.

AFH As a Land Wholesaler

From the perspective of the MOEH and USAID, this represents a perfect role for AFH. It is a way of extracting low cost raw land for low income projects from the agency's inventory while circumventing the agency's inefficiency. The question remains: Why should AFH perform this role? Even a crude analysis of AFH's resource conditions would bring out the potential disincentives. Currently, AFH's prices are controlled. The serviced land that the agency develops is mandated by law to be priced at AFH's original purchase price plus the cost of servicing the land. This pricing policy has many negative implications in terms of how it shapes AFH's motivations in the land market. But the most problematic implication, from the agency's perspective, is that this kind of pricing system in an inflationary environment prevents AFH from replacing the land that it develops. The effect is greatest in markets where land prices are rising the fastest. If rapid increases in land prices can be taken, at least in part, to be an indication of a shortage of land, then the paradox arises that AFH loses the most when it produces serviced land where shortages are most severe. When AFH sells as a wholesaler, it receives even less for its land and loses its inventory at a faster pace than before.

AFH will play a critical role in the implementation of any shelter project that includes land as one of its elements. This condition is unlikely to change regardless of the private/public mix that future projects may dictate. The agency's cooperation or lack thereof can thus make the difference between success or failure. To a large degree, the USAID and World Bank funded public shelter programs implemented by AFH were donor-led efforts. The failure of elaborate requirements for project reporting, funds for fancy management information systems, frequent donor monitoring of project progress, and even appeals to the MOEH, only added to donor frustration. To the extent that donor agencies can provide technical assistance and serve as reservoir of past project experience, intense donor involvement in the implementation of these projects can serve a useful function. But in the absence of coercive power, incentives must also exist for the implementing agencies to carry out these projects on their own.

Policy Implications and Conclusions

Beyond the Pilot Project, the Tunisian experience brings attention to a set of issues that have broader applications concerning how criteria for shelter project evaluation are defined. The first important lesson of this case is that neither of the projects is uniformly a success or a failure. A black and white characterization of these projects obscures the difficult decisions that must be made in defining success and closes the door on a critical questioning of the results. As a consequence, new projects are limited to dealing selectively with certain issues while ignoring others.

The Sites and Services Project was perceived as a "failure," largely because it took "too long" to implement. The Pilot Project was perceived as a "success" and better than its predecessor because it was implemented so quickly. These generalizations fail to highlight more critical questions raised by the project experiences. The need to minimize subsidies requires that projects mobilize resources from its beneficiaries. Yet if the goal of public housing projects is to increase the access to housing for the poorest, how do we reconcile the objectives of cost recovery and faster housing production with the fact that the poor, by definition, have fewer resources and must take longer to save? To what extent can we blame public sector agencies for slow implementation of projects for the poor? Is it at all reasonable to expect private contractors to do better? Given inadequate public sector capacity to oversee contract implementation, can the alleged benefits of private participation be realized?

Another pressing question is : how can we deal with the all too common problem that national housing policies and strategies are often not well defined, much less coordinated? A government's decision to pursue a particular national goal, or even to articulate one, is both political and technical. To the extent that such a decision is informed by selective interpretations of past experience and of the motives and behaviors of particular agencies, this case contains lessons which may challenge previous interpretations. Even, or perhaps *especially* in the absence of a clear and well coordinated national shelter policy, the way in which policy questions are framed plays a critical role in determining how we learn from project experiences.

The second important lesson of this case is that the Sites and Services Project is not any more a purely public endeavor than the Pilot Project is a purely private endeavor. AFH played a critical role in both of these projects and it is unlikely that this role will diminish in the near future. Future strategies, if they are to succeed, must address the agency's real constraints. The framing of the original problem as one of "inefficient public agencies" brought an artificial simplicity to a complex situation. Promoting the virtues of the private sector ignores its potential weaknesses, and blaming the public sector for all the problems overlooks the complexity of the task that it is required to do.

In conclusion, I will simply recapitulate the major points that I have already made:

1. The drawbacks of USAID's quick fix analysis point to a need for a broader based and more careful process for defining problems and solutions in the housing sector. Solutions should be proposed with an eye on previously articulated shelter policies and project experience should feedback into a process of redefining and re-articulating public policy.

2. The Pilot Project experience points to some specific issues, such as institutional coordination, the availability of private savings, and incentive structures for implementing agents, that are important issues in the implementation of housing projects. These issues are critical concerns for both private sector firms and public sector agencies.

3. The tension between implementing projects quickly and reaching the very poor may not be avoidable. My analysis challenges the notion that increasing the supply of housing through faster production is the best way, or even a *good* way, to address the shelter needs of the poor. Efforts to reach the poor should aim to increase, rather than limit, the number of choices available to them.

4. Whether "contracting-out" can be used successfully as part of a shelter strategy depends on what policy objectives are being pursued as well as how well the "contracting-out" process is designed to deal with the following issues: the need for market analysis, accountability and quality control, contract oversight, and the need to take into consideration the goals and constraints of the implementing agencies.

5. The question of what are appropriate objectives and how to define success in a housing project are also important concerns. The answer should not be implied by the political context of the project, but rather, it must be actively sought after and challenged. What constitutes an "appropriate" amount of time for project implementation has to be adjusted according to the primary objectives of a shelter project.

6. How policy questions are framed is an important determinant of how we learn from project experiences. The premise of the Pilot Project is founded on a false dichotomy between the "private sector" and the "public sector" which does not exist in reality. Using the Pilot Project to test, or to prove, that the private sector is somehow "better" than the public sector obscured the difficult decisions that must be made in designing shelter projects and defining criteria for evaluating their success.

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