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REPORT ON
HOUSING INVESTMENT GUARANTIES
664-HG-002 and 664-HG-003
TUNISIA

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**REPORT ON
HOUSING INVESTMENT GUARANTIES
664-HG-002 and 664-HG-003
Tunisia**

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INTRODUCTION

The Agency for International Development (AID) has authorized the issuance of guaranties for three housing loans to Tunisia. The first of these guaranties was authorized in 1966 and financed a 565-unit project for middle income families. The second guaranty (664-HG-002) in the amount of \$10 million was authorized in 1972 and was intended to finance a 3,600-unit development containing a mix of low and middle income families. Because of price increases, only 1,948 units were financed. Under the third guaranty, (664-HG-003), the first tranche of \$10 million was authorized in 1976 and funding thereunder became available by a loan agreement dated May 27, 1977. The second tranche of \$10 million was authorized recently but the loan agreement had not been negotiated as of September 30, 1978.

The purpose of the third guaranty was to encourage a shift in Tunisia's shelter policy which will maximize the impact of the Government of Tunisia's shelter programs aimed at below-median-income families. It provides funds to: (1) upgrade a slum area by the provision of services, such as electricity, water and sewage; (2) develop about 1,400 one-room core housing units nationwide; and (3) build 1,482 low income housing units as a continuation of 664-HG-002.

As of July 14, 1978, all loan funds (\$10 million) under 664-HG-002 were drawn down and a total of \$7.9 million was disbursed under 664-HG-003.

Housing, affordable by families of below-median-income, was provided under two of the three activities of Housing Guaranty 663-HG-003. The third activity, a slum upgrading, proved to be more difficult to initiate and implement than originally expected. While a study was performed and recommendations made, work at the site had not actually begun as of July 31, 1978. The Regional Housing and Urban Development Officer in Tunis recognized that the slum upgrading activity was not progressing at the pace established in implementing documents but expressed his satisfaction with progress made to date and his opinion that the activity would be satisfactorily completed.

Activities under the first and second guaranties were reviewed in 1976 by the AID Auditor General and the results were reported on November 30, 1976. The purpose of this audit was to enquire into actions taken since the prior audit and to identify those areas requiring management's attention.

SUMMARY

The housing units being constructed under the core housing activity of Housing Guaranty 664-HG-003 were larger and thus more expensive than the units approved by AID (page 2).

Funds from the loan guaranteed under 664-HG-003 have been approved for activities not authorized under the guaranty (page 4).

Twenty percent of the purchasers of core housing units that we surveyed had above-median-income. Efforts should be made to increase the percentage of families with below-median-incomes that participate in the program (page 5).

Construction of additional core housing units may be possible if Housing Guaranty funds are maximized for mortgage financing (page 6).

Action is needed to stimulate the borrower's interest in improving financial and management procedures and in activating independent and internal audit activities (page 8).

STATEMENT OF FINDINGS AND RECOMMENDATIONS

Core Housing

Core housing units at two sites which we visited were neither built in accordance with approved plans and specifications, nor with the description of core housing unit set forth in the project paper. The implementing agency apparently decided that a modified unit should be built. The objective of providing a simple basic core housing unit, which the purchaser could expand as desired, will not be met.

The project paper established the criteria for a core housing unit to be constructed under Housing Guaranty 664-HG-003 as:

" . . . a 15-20m² (square meter) enclosed unit comprising a WC (Toilet), small kitchen and one sleeping/living room. Units will be on a 80m² to 100m² lots and will be expandable according to the economic means and building skills of their owners. All units will be provided with water and sanitary facilities and will be serviced by streets and walkways, storm drainage and public lighting networks."

The borrower submitted plans of the proposed core housing units to AID for review and approval. After review, AID advised the borrower on June 10, 1977, that the proposed cost of the units was too high. AID also commented that it was committed to financing a one-room minimum core house with a small kitchen and toilet. The plans submitted by the borrower for the units in four locations proposed the construction of more than one principal room. The borrower submitted revised plans on June 13, 1977, for the construction of a one-room unit with kitchen, toilet and a wall 1.6 meters high surrounding the backyard. These plans were approved by AID.

A report by a Regional Housing Officer in November 1977 noted that the size of the core housing units had been agreed to. Tunisian representatives confirmed that units built at the Sousse, Mahdia, and Monastir sites would have only one principal room with 1.6 meter courtyard walls as decided in June 1977. The borrower requested that AID approve modifications early in October 1977. However, AID requested that the borrower make no changes in the approved unit design prior to receiving AID's approval.

In January 1978, additional information was received by AID, and the Regional Housing Officer approved the installation of a partition to divide the one sleeping/living room. A partition had not previously been mentioned in the construction specifications. But we were unable to verify exactly what design changes were approved by the Regional Housing Office because complete documentation could not be located during our review.

We visited the core housing unit sites in Sousse and Monastir. Construction appeared to be progressing well; the quality of construction appeared to be excellent; and the sites seemed well located. Our inspection disclosed two significant differences between what had been built and what AID had approved to be built. The units contained not one but two rooms in addition to the kitchen and toilet; and all courtyards were enclosed by a 2-meter high wall. We were advised that the structure separating the two rooms (even though it was a solid, floor-to-ceiling wall) was just a "partition". Further, the size of the two rooms was about 70 percent larger than the one room of the approved unit (21 square meters vs 12.3 square meters). The separation of the sleeping/living room required additional doors and windows and increased costs. Materials and labor to make the outer wall 2 meters high also increased costs. When the plans were reviewed in June 1977, it was estimated that the entire unit price could be reduced by 5 percent if the height of the outer wall were reduced from 1.6 meters to 1 meter.

At Sousse and Monastir, we noted that no provision had been made for storm drains in the enclosed courtyard areas. Unless corrected, the lack of drainage may result in flood damage to the units. We found no evidence in our review of project files that the acceptability of soils for waste disposal via septic tanks (which is the system being used in some areas) had been reviewed. Also, many of the community facilities to be provided by the Government of Tunisia were not in place.

AID employed an engineer to visit all core housing project sites to determine progress and identify major problems. The engineer's preliminary report of the visits made in May 1978 disclosed no major problems and no discrepancies between the actual progress and the progress reported by the borrower. The engineer made no comment on the two-room units being constructed at Sousse and Monastir except to note that one occupant in Monastir was ". . .in the process of adding to the basic two rooms, bath and kitchen." No comment was made regarding the changes made in the originally approved plans for these two sites.

Aside from the issue of deviating from AID-approved plans, the changes and additions add unnecessarily to the cost of core housing units. Project files contain correspondence between AID and Tunisian officials regarding the need to hold construction costs to a feasible minimum. Maintaining low costs was necessary to ensure that core housing units remain affordable to the lowest possible income group.

Recommendation No. 1

The Regional Housing and Urban Development Office, Tunis, should determine that core housing units are built in accordance with the intent of Housing Guaranty 664-HG-003 and ensure that the borrower makes such changes as may be necessary to comply with the terms of the Housing Guaranty authorization.

Use of Project Funds

The Regional Housing and Urban Development Office in Tunis approved the use of about \$50,000 for activities not authorized under Housing Guaranty 664-HG-003. Funds were reportedly not available from other sources.

At a meeting between AID and International Bank for Reconstruction and Development officials in October 1977, AID was requested to expand its study of a slum area to include an adjacent area in which the International Bank for Reconstruction and Development was considering a slum upgrading project. International Bank for Reconstruction and Development officials stated that no funds were available from their institution for the necessary planning studies and that the Government of Tunisia was also having a difficult time locating funds for this purpose.

A request was received in January 1978 from Tunisian officials to use the equivalent of \$50,000 from Housing Guaranty 664-HG-003 funds to finance the studies for the International Bank for Reconstruction and Development project. After further discussion, AID advised the borrower in March 1978 that no objection would be made to acceptance of the cost of the studies as eligible expenditures for the equivalent of about \$50,000. AID's approval was based on the premise that the funds used on the studies for the potential project would be returned and used on the AID project.

We were advised that the resident project manager (whose cost is 100 percent Housing Guaranty funded) on the AID project spends about 25 percent of his time on the initiation of the potential International Bank for Reconstruction and Development project. We do not believe that the use of Housing Guaranty funds to either finance the cost of the studies or the services of the resident project manager is within the scope of the Housing Guaranty authorization. The project paper, in fact, states that the International Bank for Reconstruction and Development would not be directly involved in the AID project.

In August 1978 after we discussed the matter with the Regional Housing and Urban Development Office, Tunis, the approval for use of Housing Guaranty funds to cover the cost of studies for the potential International Bank for Reconstruction and Development project was withdrawn.

Recommendation No. 2

The Regional Housing and Urban Development Office, Tunis, should require the borrower to recover all funds under Housing Guaranty 664-HG-003 which were used to finance unauthorized activities.

Participation

Our survey showed that 20 percent of the purchasers of core housing units had incomes above the median for Tunisia. Efforts by the borrower should be increased to select purchasers with below-median-incomes in order to maximize the project's impact among the lowest possible income groups.

The project paper and the implementation agreement for Housing Guaranty 664-HG-003 make it clear that the goal is to provide housing for families of below-median-income. The objective of the core housing activity was to provide a habitable house with minimal standards and cost so that families with low incomes would be able to afford this type of shelter.

We reviewed the files of 20 purchasers of the 150-unit core housing project at Monastir. Each purchaser saved the down payment (one-third of sales price) in about half the time allotted (2 vs. 4 years). Some had actually saved twice the down payment. These two facts indicate that the borrower had been accepting the best risk clients rather than directing its efforts towards the selection of families with below-median-incomes. We also found that four of the purchasers (20 percent of those surveyed) had reported incomes greater than the median for the area.

It might be argued that the borrower will be accepting the best qualified individuals first because these would be the first individuals to qualify for houses. We believe that now is the time (when only about 10 percent of the units have been sold) to advise the borrower that increased efforts should be made to identify and serve families of below-median-incomes. This would reinforce the intent underlying authorization of this project, and assure greater compliance with AID's Housing Sector Policy to serve the poor majority. Based on our discussion with the core-housing project coordinator, no special effort has been made to restrict the purchasers to families of below-median-income. The selection has been based on category of savers rather than family income levels.

Recommendation No. 3

The Regional Housing and Urban Development Office, Tunis should advise the borrower that increased efforts must be made to identify and serve below-median-income families in order to meet the intent of Housing Guaranty 664-HG-003 and AID's Housing Sector Policy.

Maximizing The Use Of Housing Guaranty Funds

The Borrower's need for construction advances under Housing Guaranty loan 664-HG-003 is placed in doubt because of the availability of commercial bridge financing to home buyers. Furthermore, because prospective purchasers have accumulated average savings substantially in excess of the amount required to qualify for core units, their long-term mortgage financing needs can be expected to be less than anticipated. As a consequence, greater numbers of core housing units may be able to be built under presently available Housing Guaranty loan funds if steps are taken to ensure the efficient use of these resources.

Our survey of 20 purchasers of core housing units showed that despite the fact that all buyers had the necessary savings for the down payments, all 19 credit purchasers (one purchaser paid cash) were provided an "anticipated credit." This is a 2-year-bridge loan for amounts ranging from 70 to 100 percent of the unit sales price. These bridge loans were arranged by the borrower from commercial sources and require only the payment of interest at 7 percent per annum for the 2 years.

Many of the purchasers included in our survey had accumulated savings substantially in excess of the required down payment. It is the borrower's practice to retain all savings irrespective of the down payment requirement. Once a saver is allocated a house, however, further savings are no longer

accepted. Given the demonstrated savings propensity of Tunisians, we believe the Regional Housing & Urban Development Office, Tunis, should explore with appropriate Tunisian officials the desirability of establishing a free savings system for housing finance in that country.

In addition to the bridge loans and blocked savings accounts, the borrower has requested and received funds under Housing Guaranty 664-HG-003. For a core housing unit where the purchaser had saved \$3,000 (maximum amount for purchasers included in our survey), a bridge loan of \$4,900 was obtained, and Housing Guaranty funds of \$3,300 were requested and received. Thus, the borrower had available funds of \$11,200 for a unit which cost only \$4,900. This of course was the most extreme case noted in our survey, but in all credit cases the borrower had available substantially more funds than were required to pay for the cost of the unit.

The condition noted during our survey may be a short run situation and in the long run the borrower may need all of the Housing Guaranty funds for the planned 1,400 core housing units. On the other hand, if the condition is found to be generalized, then this would result in Housing Guaranty loan funds becoming available to fund additional core units. We believe the condition disclosed by our survey should be reviewed in detail to ensure that Housing Guaranty funds are used to provide necessary mortgage financing for the maximum number of housing units.

Recommendation No. 4

The Regional Housing and Urban Development Office, Tunis, should review the financing of core housing units under Housing Guaranty 664-HG-003 to ensure the maximum number of units will be constructed within the authorized limit of available mortgage financing.

Recommendation No. 5

The Regional Housing and Urban Development Office, Tunis, should establish procedures to ensure that the costs associated with the units sold for cash do not become eligible for mortgage financing or construction progress payments under Housing Guaranty 664-HG-003.

Financing Management

Neither of the borrowers under Housing Guaranties 664-HG-002 and 003 has an annual audit of its records nor an operating internal audit organization. A significant number of the home owners under Housing Guaranty 664-HG-002 were delinquent in their payments and little appears to have been done to correct the situation. Thus, actions which might have been taken to reduce the cost of housing probably have not been taken.

AID has employed the National Savings and Loan League to review and report on the financing and management procedures being followed by the borrowers under Housing Guaranty programs. The National Savings and Loan League has reviewed the activities of the borrower under Housing Guaranty 664-HG-002 several times and each time corrective actions have been recommended. While some improvements have been made, the borrower still had not had any recent independent audits (the only audit completed to date was delivered on July 15, 1976, for 1974 activity) and had not established its own internal audit organization at the time of our review.

The AID Auditor General issued a report on November 30, 1976, which included a review of the financial and management procedures being followed by the borrower under Housing Guaranty 664-HG-002. This report commented on several aspects of the borrower's procedures which resulted in deficiencies and indicated a need for improvements. For example, it was reported that, since inception of the project, 79 percent of the homeowners were delinquent by at least one payment, and that adequate delinquency reports were not being prepared. Improvements have been made and reports on homeowners' payments were being prepared. Our review and analysis of the report, as of April 30, 1978, showed that about 39 percent of the residents of the largely AID-financed Ibn Khaldoun were delinquent in making monthly payments. Many of the homeowner accounts were delinquent by more than 12 payments and some were delinquent for years. While the borrower stated he had established procedures to follow-up on delinquent accounts, little progress seems to have been made in reducing the number of delinquent accounts.

During the first 3 months of calendar year 1978, the borrower's reports showed that the delinquencies on homeowners' accounts were averaging the equivalent of about \$500,000. If procedures were employed to reduce the overall amount of the delinquencies, the borrower would be required to borrow less money thereby reducing interest expense. By reducing interest expense the cost to homeowners could be reduced.

We reviewed the financial procedures used by the borrower under Housing Guaranty 664-HG-003. The borrower prepared accounting documents to record the release of funds; however, these documents were not entered in the formal accounts of the borrower. Also, instead of recording a liability

for the amount of funds disbursed as of December 31, 1977 (about 63 percent of the total available under the guaranty), the borrower recorded the total amount of the first tranche of the guaranty as a liability. The escrow account, which is a special suspense account under this Housing Guaranty, was not recorded in the formal accounts of the borrower, but was maintained only as a memorandum account. We were also advised that an independent audit of the borrower's accounts had not been made and that its internal audit organization was not yet operational.

In March 1977, AID advised the borrower under Housing Guaranty 664-HG-002 that project cost accounting practices and delinquency collection procedures had improved. The Regional Housing and Urban Development Officer, Tunis, reviewed the records of the borrower under Housing Guaranty 664-HG-003. While he was satisfied that an adequate system to account for expenditures existed, he found it difficult and time consuming to assure himself that expenditures were consistent with progress and that AID's share was within established limits.

We believe that the borrowers under the Housing Guaranty program in Tunisia need to improve their financial and management procedures in an effort to better control resources and to reduce the cost of housing.

Recommendation No. 6

The Regional Housing and Urban Development Office, Tunis, should advise the borrowers under the Housing Guaranty Programs in Tunisia to improve their financial and management procedures and encourage them to institute a system of internal and external audits.

SCOPE

Our audit was directed primarily towards an examination of activities under Housing Guaranty 664-HG-003 and covered these activities from authorization in 1976 through June 30, 1978. We made a cursory review of recent activities under Housing Guaranties 664-HG-001 and 664-HG-002 as these guaranties were reviewed in 1976. Our audit included such tests of the records and site visits as were considered necessary in the circumstances. We reviewed selected records maintained by, and held discussions with, officials of the Regional Housing and Urban Development Office, Tunis, Tunisia, and various Tunisian offices that were involved with the implementation and administration of the housing guaranty activities. We visited selected project sites in Tunis, Sousse and Monastir, Tunisia.

We discussed the findings and recommendations in the report with Regional Housing and Urban Development officials in Tunis and provided these officials a copy of this report, in draft, for comment. Their comments, received on October 10, 1978, were considered in finalizing this report.

List of RecommendationsPageRecommendation No. 1

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The Regional Housing and Urban Development Office, Tunis, should determine that core housing units are built in accordance with the intent of Housing Guaranty 664-HG-003 and ensure that the borrower makes such changes as may be necessary to comply with the terms of the Housing Guaranty authorization.

Recommendation No. 2

5

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Recommendation No. 3

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Recommendation No. 4

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Recommendation No. 5

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