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Auditor General

AUDIT REPORT

MISSION REVIEW

USAID/CHILE

Audit Report Number 1-513-79-8

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Area Auditor General Latin American
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I INTRODUCTION

The Office of the Area Auditor General, Latin America has made an audit of the active loans, grants and support operations under the United States Agency for International Development bilateral economic assistance program to the Government of Chile (GOC).

The purpose of the audit was to evaluate progress being made on program activities and to review the effectiveness of implementation and resource utilization.

II BACKGROUND AND SCOPE

The A.I.D. Mission was established in 1951 to administer economic assistance in accordance with a bilateral agreement between Chile and A.I.D. and its predecessor agencies. Since 1951 Chile has received approximately $584.7 million in loans, $79 million in grants and $175 million in Title II PL 480 foods. Because of the human rights issue, the GOC asked A.I.D. not to submit any new programs to the U.S. Congress for Fiscal Year 1978. The Congressional Presentation for 1979 also did not contain any new programs for Chile. Active programs as of January 31, 1979 include three loans totaling $34 million and six grants totaling $1.5 million (Exhibits A and B). The Fiscal Year 1978 Title II PL 480 food program had an estimated value of $5.1 million and the planned program for Fiscal Year 1979 is $8.1 million.

USAID employees on board at January 31, 1979, included three U.S. direct hire, with one additional employee to report March 16, 1979 and 19 local direct hire employees. Action on seven of the local direct hire employees who were to be transferred to the Embassy in April 1978 to provide support services to USAID is still pending. Formal approval has not been received from the State Department for these transfers.

The scope of audit included a review of the three loans, five grants and USAID support operations. A survey was made of the Title II PL 480 program. We examined project files, held discussions with project personnel, made visits to implementing agencies, inspected project sites, made a limited review of supporting financial records and performed such other procedures considered necessary to meet the objectives of the audit. The period of audit was from April 1, 1976 through January 31, 1979. There are no outstanding recommendations from prior audit reports.

III SUMMARY

Our review disclosed AID assistance programs in Chile are currently progressing satisfactorily. There were, however, delays in implementation of Loans 065 and 067 and Grants 0296 and 0305. These delays were caused by problems within Chilean implementing agencies. No significant deficiencies were found due to inadequate monitoring by the USAID. Also, no audit deficiencies were disclosed by the review of USAID support operations. Findings are summarized below and are covered in detail in Part IV, Findings and Recommendation section of the report.

The implementing agency for Loan No. 513-T-065, Agricultural Cooperative Development, incurred cash flow problems in 1967 and was reorganized. As a result, implementation of the technical assistance part of the Loan was delayed for approximately 18 months; however, with the assistance of USAID, a technical assistance program was developed and implementation will begin during 1979. The implementing agency has requested an extension of the terminal disbursement date until December 31, 1980. There has been a high delinquency rate in subloans made to member cooperatives. This was not totally unexpected as the loans were made to the rural poor. The implementing agency has not been furnishing delinquency reports to the USAID. (See page 8.)

- Total loan funds authorized under Loan No. 513-T-066 probably cannot be utilized by the terminal disbursement date. A technical assistance contract financed under the loan contains provisional overhead rates. Actual overhead rates have not been determined. (See page 11.)

- There have been delays in implementing two elements of Loan No. 513-T-067, Agricultural Production Credit. The technical assistance portion of the loan has not been carried out because the role of the implementing agency in the agriculture sector had not been determined until recently. The Policy, Planning, Information System financed with loan funds has been delayed and has been redesigned because of delays by another GOC agency in processing agricultural census data. (See page 13.) Under the credit portion of the loan, funds have been used by sub-borrowers to pay the Chilean 20 percent value added tax; however, the Loan Agreement has a provision requiring the GOC to reimburse the project for taxes paid which is the procedure being followed. The present system allows the sub-borrowers to offset the taxes paid with subloan proceeds against taxes collected in connection with crop sales. (See page 14.)

- Project No. 513-0296, Rural Cooperative Upgrading, was delayed 18 months because of a reduction in project funding and financial problems of the implementing agency. (See page 15.)

- Because of the delay in the start up of Project No. 513-0305, Child Recuperation Centers, it will be necessary to extend the project completion date to meet project objectives. (See page 23.)

- A limited review of the Title II PL 480 program did not disclose any deficiencies. (See page 24.)

IV FINDINGS AND RECOMMENDATIONS

A. Loan No. 513-T-065, Agricultural Cooperative Development

The Loan Agreement between the United States of America, the Government of Chile and the Institute for Financing Cooperatives (IFICOOP), Chilean private corporation, was signed April 30, 1975. The purpose of the $15 million loan is to provide financial and technical assistance for rural cooperatives in agricultural, fishing and other related activities. $14.2 million of the loan is allocated to the financing of subloans extended by IFICOOP to cooperatives for subprojects which will increase the income of the rural poor. The remaining $800,000 of the loan is for technical assistance, feasibility studies, consulting services and commodities. The final disbursement date is August 31, 1979.

As of January 31, 1979, the financial status of the loan was:

	Committed	Disbursed	Unexpended
Credit	$14,200,000	$13,742,517	$457,483
Feasibility Studies	241,150	155,540	85,610
Technical Assistance for Cooperatives	477,442	105,871	371,571
Salaries for Professional Staff	37,507	37,507	
Equipment for IFICOOP	43,901	43,463	438
Total	$15,000,000	$14,084,898	$915,102

Subloans have been made to 112 cooperatives for the purpose of capital investment or to finance operations. Sixty three subloans were to campesino, reform sector, and artisan fishing cooperatives which are made up of the A.I.D. target groups, the rural poor. The remaining 49 subloans were made to agriculture cooperatives whose membership consists of varying income levels but includes mostly target group families.

In January 1977 IFICOOP advised the USAID that it was facing serious financial difficulties because of acquisitions of unprofitable enterprises outside the agriculture sector and the change in the money market due to the GOC's anti-inflationary policy. USAID reviewed IFICOOP's financial situation and determined that it had a serious cash flow problem that would require drastic cutbacks in all deficit activities and general operating costs. No

effective action was taken to alleviate the problem until the Superintendent of Banks made a follow-up audit in July 1977, and found that no progress had been made since the initial audit in May in disposing of unprofitable ventures, lowering operating costs or seeking refinancing. On July 15, 1977 the Superintendent of Banks appointed a provisional administrator who stopped the loan program and concentrated on the financial recovery of IFICOOP. At that time $10.8 million of loan funds had been loaned to rural cooperatives. In the period that followed IFICOOP was reorganized and underwent a major cost reduction program. The bank debt with local commercial banks was renegotiated, unprofitable or marginal ventures were liquidated, personnel were reduced by over 50 percent, a financial control system was instituted, financial support was obtained from the Central Bank and more stringent practices for subloan collection were adopted. These actions enabled IFICOOP to resume lending operations. From December 1977 to September 1978, loan funds of $2.9 million were loaned to rural cooperatives leaving a balance of $457,484 to be lent under the credit portion of the loan. This amount is expected to be fully disbursed by August 31, 1979, the terminal disbursement date. In addition to sublending loan funds, IFICOOP has lent $1.7 million of its funds, including earned interest, to rural cooperatives. IFICOOP has established a mechanism to assure the permanent availability of $16.2 million for financing eligible subloans. The mechanism includes the creation of a segregated account in IFICOOP to which all repayments from A.I.D. financed subloans must be credited. In addition, IFICOOP will gradually add to the account from its own resources obtained from operating surpluses, increased capitalization and recovery of portfolio from operations other than those financed under the loan. These increments will be adequate to increase the amount to $16.2 million by no later than December 1983.

The subloans have been beneficial to the target group, especially the small scale farmer who does not have an adequate land base to fully use his labor, e.g., bee and honey production activities and gathering wild berries for production and export of rose hips. Also subloans made in remote areas have a high benefit for the rural poor because they are carried out in the poorer areas of the country. It is very difficult to determine how much and to what extent the subloans have increased the income of the rural poor. In 1977 an evaluation system was prepared by a contractor financed under Project No. 513-0296; however, as a result of the reorganization of IFICOOP the evaluation system is obsolete. The technical assistance part of the loan includes funds to make an evaluation of the effects of the credit component on cooperative income.

Nine feasibility studies costing $155,540 have been financed with loan funds. These studies include horticulture, flour, potatoes and fisheries research. We were advised by IFICOOP that five early feasibility studies were expensive and not specifically applicable to cooperatives participating in the project. The early studies were approved by the USAID Project Manager with the thought that the feasibility studies would be of overall help to the cooperative development program. IFICOOP has not been able to market these studies among member cooperatives or to outsiders. Recent feasibility studies are geared directly to IFICOOP or a cooperative participating in the project

and the cost of these studies is significantly less. The $85,610 balance of loan funds earmarked for feasibility studies will be used in connection with the technical assistance program discussed below.

The implementation of the technical assistance project under the loan has been slow due to IFICOOP's main efforts at financial recovery. Technical assistance loan funds have been budgeted to support two regional organizations' efforts to upgrade cooperatives in connection with Grant Project No. 513-0296. Also, with the assistance of the USAID Rural Development Advisor, a technical assistance program for IFICOOP and member cooperatives has been designed. This program involves outside advisory services to train IFICOOP personnel in systems operations, loan evaluations, portfolio management and case studies of clients with problems. Member cooperatives will receive training in accounting and administration, technical and professional support in financing, production and marketing, and technical assistance in livestock, fruit growing and general agriculture subjects. IFICOOP has developed the technical assistance program for implementation through 1980, and has requested an extension of the terminal disbursement date until December 31, 1980.

Loan funds were used to install a telephone system in the IFICOOP offices ($36.350) and to procure typewriters ($7,113).

1. Delinquent Subloans

As of October 31, 1978, 39.3 percent of subloans made under the credit portion of the loan were over six months delinquent. An ageing of delinquent subloans follows:

Total Loans	Under 6 mos.	From 6 mos. to 1 year	From 1 to 2 years	From 2 to 3 years	Over 3 years	Total Delinquent
112	13	22	19	2	1	57
Amt. of Payments Delinquent	$1,158	$1,331	(Millions) $4,789	$.041	$.048	$7,367 1/

1/ Computed on an exchange rate of Pesos $33.50 to US$1.00

IFICOOP loaned a substantial amount of new funds in 1976 to the lower income strata of the agriculture sector at a time when financing was extremely scarce. A high delinquency rate on loans to the rural poor could be expected, but a combination of market, agronomic and management factors has resulted in a higher delinquency rate than anticipated. Also, IFICOOP's cash flow problem, as discussed earlier, was detrimental to several cooperatives because follow-on loans were not made as planned.

IFICOOP has taken legal action to collect some delinquencies. Other loans have been renegotiated. Project No. 513 0296, Rural Cooperative Upgrading and the technical assistance projects using loan funds to train member cooperatives in management, accounting, production and marketing should help cooperatives to increase their income and repay loans which are now delinquent. Because of IFICOOP's positive action on delinquent subloans, no recommendation is considered necessary.

Subloan delinquency reports are not currently being submitted by IFICOOP. The latest delinquency report available was dated January 31, 1978. To analyze the delinquency problem and more closely monitor the loan, USAID should ask IFICOOP to submit periodic (monthly or quarterly) delinquency reports.

Recommendation No. 1

USAID/Chile obtain from IFICOOP periodic delinquency reports on subloans made with A.I.D. Loan 513-T-065 funds.

B. Loan No. 513-T-066, Nutrition Development

Loan No. 513-T-066 to the Government of Chile was signed on October 23, 1975. The purpose of the $5 million loan is to enable the National Council for Food and Nutrition (CONPAN), an intersectorial body dependent upon the Ministry of Health, to create an effective nutrition planning process on the national level. The process will support the goal of reducing malnourishment in Chile by one-half in ten years within the target group, defined in order of priority as infants from birth to two years old, pregnant women, lactating women, children from two to five years old and children from six to fifteen years old, all members of families in the lowest one-third income group.

Loan funds will support three distinct, but integrated elements:

- Technical assistance, to enable CONPAN to establish an effective nutrition planning process.

- Consulting and other professional services of primarily local public and private entities to collect and analyze data.

- Pilot projects to identify and field test the most cost-effective and innovative means of intervening in the nutritional system.

The total cost of the project is estimated to be $9 million of which the borrower will provide $4 million in counterpart funds.

As of January 31, 1979, the financial status of the loan was:

	Loan Amount	Committed	Disbursed	Unexpended
Pilot Proj.	$2,625,000	$1,900,000	$1,166,593	$1,458,407
Cons. Serv.	1,550,000	550,000	436,454	1,113,546
T.A.	825,000	550,000	489,499	335,501
Total	$5,000,000	$3,000,000	$2,092,546	$2,907,454

The final disbursement date is October 23, 1980. At December 31, 1978, the GOC has contributed the U.S. equivalent of $2,522,500.

On July 15, 1976, CONPAN executed a contract with Community Systems Foundation (CSF), a U.S. consulting firm. The purpose of the contract is for CSF to provide technical assistance to CONPAN with the objective of developing within CONPAN a national nutritional planning system.

At January 31, 1979, loan disbursement for CSF contract services were $489,499. CSF has provided Chilean and U.S. personnel to aid CONPAN to evaluate, experiment and propose changes of policy in currently operating nutrition programs, to analyze, select and implement nutrition and institutional projects, to determine policies and cost-effective measures for solving nutritional problems and to generate proposals for new projects and programs. CONPAN considers the performance of CSF to be satisfactory and believes that it has accomplished with the help of the technical assistance contract the project objective of establishing an effective nutrition planning process.

CONPAN has initiated 19 Pilot Projects through December 31, 1978. CONPAN plans to initiate 10 more during 1979. Pilot Projects are in the nutritional field and are for the purpose of identifying and field testing the most cost-effective and innovative means of intervening in the nutritional system. The projects are implemented by contracts, usually with a GOC entity such as the Ministry of Agriculture, National Health Service, etc., and are supplemented with contracts with consulting and professional firms or individuals. The results expected of pilot projects are a determination of nutritional conditions in Chile and how best to operate to improve the nutritional conditions of the target group. As mentioned below in the evaluation report on the project, this phase is making satisfactory progress.

The GOC Ministry of Health statistics for the period 1974 thru 1977 show that the mortality rate for infants 0 to 1 year decreased from 63.3 to 47.0 per 1,000 and for infants 1 to 4 years from 2.63 to 1.68 per 1,000. These substantial decreases in child mortality rates are indicative of the attainment of the project goal of reducing malnourishment in Chile.

An evaluation was made of the project in May 1978 by an A.I.D. financed contractor. The evaluation reported favorably on well-executed contractor pilot projects (e.g. family gardens, sanitary facilities) and studies (e.g. monitoring nutrition status, estimating food production, identifying foci of malnutrition) which increased useful knowledge substantially. A manual of procedures and a functioning library also illustrate CONPAN administrative development with the result that CONPAN now has a realistic information system. CONPAN shows high proficiency in other formal aspects of institutional performance. The evaluation was critical of the CONPAN operation in the area of coordination with other GOC agencies and management policies on nutrition planning and analysis. Since the evaluation, CONPAN management has been replaced and certain operations of CONPAN have been reorganized. From our discussions with CONPAN and USAID officials and our observations, we are of the opinion that improvements have been made in these areas. An evaluation of the project is scheduled for June 1979 and this should determine the extent of these improvements.

1. Projected Use of Loan Proceeds

The loan agreement provides that $1.5 million of loan proceeds will be used to finance the U.S. dollar costs of goods and services required for the project. At January 31, 1979, loan disbursements of $518,049 have been made from this category.

We discussed with CONPAN officials the projected use of the remaining balance of loan funds for U.S. dollar costs of goods and services. They stated that very little additional funds of the $1.5 million are expected to be utilized for U.S. dollar costs. Project plans anticipated that a substantial amount of expert services would be obtained outside of Chile. However, as the project progressed, it was found that much of the expertise required for the project was available in Chile. Costs being less for the Chilean services, the need for services outside Chile did not materialize. CONPAN would like to use the remaining funds for project local currency costs. However, CONPAN officials said it is probable that all of the remaining loan funds could not be utilized by the October 23, 1980 loan terminal disbursement date. They believe that a year's extension would provide sufficient time to use all of the loan funds.

The USAID needs to review with CONPAN the projected use of the remaining loan funds and take appropriate action to modify the agreement so that maximum use of loan funds can be achieved to carry out project objectives.

Recommendation No. 2

USAID/Chile, review with CONPAN the projected use of remaining loan proceeds and modify the loan agreement to maximize use of loan funds.

2. Community Systems Foundation (CSF)

Final overhead rates have not been submitted by CSF since inception of the contract.

Article IV of the contract provides for the payment of overhead expenses as follows:

> "Until the final sums of overhead are established, provisional payments will be made in lieu of allowable indirect costs, in an amount equal to 37.5 percent of the total direct costs, subject to an appropriate change when the final sums are established for that period"

Overhead is a substantial cost of the contract ($127,621) and thus, CSF should submit actual overhead rates for each of its accounting periods since inception of the contract and an appropriate adjustment of the overhead costs should be made.

Recommendation No. 3

USAID/Chile, in conjunction with CONPAN, obtain actual overhead rates from CSF and adjust the contract provisional overhead rate as appropriate.

C. Loan No. 513-T-067, Agricultural Production Credit

The Loan Agreement between the Government of Chile and the United States of America was signed July 27, 1976. The $14 million loan is to provide agricultural production credit to the small farmers in Chile [1/]. and establish a policy, planning and information system within the Ministry of Agriculture with a broad program for gathering, processing and analysing data and for providing necessary technical assistance. The goals of the loan are to improve incomes, farm productivity, and employment opportunities of the small farm families, and to achieve greater agricultural production.

Of the $14 million loan, $12 million is for credit operations for financing small farmer production needs: $7.5 million for relending to small farmers through the Institute for Agricultural Development (INDAP), an autonomous entity of the Ministry of Agriculture, and $4.5 million for relending by private sector sources through the Chilean banking system. All subloans to small farmers are at a 12% interest rate. At January 31, 1979 the status of loan funds was:

	Available	Disbursed	Unexpended
Credit Operations	$12,000,000	$10,240,352	$1,759,648
Technical Assistance	500,000	-	500,000
Policy, Planning and Information System	1,500,000	498,115	1,001,885
Total	$14,000,000	$10,738,467	$3,261,533

The final disbursement date is June 22, 1980.

Implementation of the credit operations portion of the loan is generally on schedule. As of December 31, 1978, the banking and financial institutions had made subloans of $11 million to 7,780 small farmers, or an average loan of $1,421. This exceeds by $2 million the amount programmed to be lent by banking and financial institutions but falls short by 3,470 of the project goal of 11,250 recipients. This is because subloans through the commercial banking system were made to the larger of the small farmers and the amount of the subloans were greater than originally planned due to higher production and investment costs. To help insure that loan proceeds reach more small farmers, the maximum amount of subloan for these purposes was reduced from an earlier limit of $25,000 to not more than $10,000. As of December 31, 1978, INDAP had loaned $11.3 million to 38,481 farmers, or

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1/ By definition a small farmer is one that farms no more than 12 basic irrigated hectares.

an average loan of $293. INDAP's loan were to the smallest and poorest farmers and exceeds the planned number of recipients to be reached by the end of 1979 by 20,000. The subloan delinquency rate is about five percent which is well under the project target of 10 percent. This indicates that farming operations financed with loan funds have brought financial returns to credit users.

The loan agreement provides that a credit fund of $24 million will be established over a period of three years. At December 31, 1978, the amount of the credit fund was $22.3 million, $8.9 million from loan funds, $0.2 million from loan funds recovered and relent $12 million from GOC contributions and $1.2 million from GOC funds recovered and relent. It is expected that the full amount of the credit fund will be reached in 1979. Thus a permanent source of credit will have been established for the small farmer.

Implementation of the technical assistance portion of the loan has not taken place due to the delay in reorganizing the offices within the Ministry of Agriculture. Specifically, there had been a delay in determining the exact role of INDAP in the agriculture sector. We discussed the delay in submitting the implementation plan with the USAID Rural Development Advisor He stated that a plan has been formulated by a technician from the Ministry of Agriculture's Development Planning Office (ODEPA) and was submitted to USAID in January 1979. The plan is under review and should be approved by the USAID by March, with the implementation of the plan to begin in April.

The Policy, Planning, Information System (PPIS) component of the loan is broken down into assistance to the National Statistics Institute (INE) in processing the 1975-1976 agricultural census and assistance to ODEPA. The census is about two years behind schedule and will not be completed until December 1979. USAID has urged INE to give greater priority to the census as the delay has created difficulties in designing reliable samples for farm surveys. As a result of the delay, the project evaluation scheduled for June 22, 1977 to determine income increases of credit users and expansion of rural employment as a result of credit availability to small farmers has not been made. The PPIS activity was redesigned by the ODEPA resident advisor and is ready for implementation. A loan funded contract was awarded in January 1979 to perform the field work to obtain data for the evaluation. The PPIS is designed so that project evaluations can be made every three months using information submitted by the Ministry of Agriculture's regional offices. Thus ODEPA will be able to closely monitor the credit aspects of the small farmer.

Assistance to ODEPA consists of the contract services of a resident advisor who is a senior economist from the World Bank. The contract for $216,000 is financed with loan funds and is for the period September 24, 1976 to September 23, 1979. Both the USAID and ODEPA consider his performance to be highly satisfactory. The contractor's accomplishments are detailed in the PPIS progress report covering the period from October 1976 to October

1978. Essentially, he has modernized and improved the planning and analysis capability of ODEPA, guided and evaluated the execution of the agriculture production credit program under the loan and trained and supervised the staff that is implementing the PPIS.

1. Value Added Tax

Subloan funds have been used to pay the Chilean 20 percent value added tax (IVA) although the loan agreement specifically exempts loan funds from taxation. Section 4.05 of the Loan Agreement provides that the GOC may reimburse the project for taxes paid with funds other than those provided under the Loan. This in effect is what the GOC is doing because a permanent credit fund of $24 million is being established, $12 million of loan funds and $12 million from the GOC. As of December 31, 1978, the credit fund was $22.3 million. Thus the GOC portion of the credit fund is reimbursing loan funds which have been used to pay the IVA tax.

All sub-borrowers under the project are required to pay the IVA tax on all procurement of commodities used in crop production, i.e., seeds, fertilizers, capital investments, etc. The tax is imposed by the GOC on all sales and is stated separately on all vendor's invoices. When the crop is sold the farmer charges the 20 percent IVA tax to the buyer. We found that some farmers who have received subloans have benefitted from paying a lesser net IVA tax because either they keep records or they are provided an accounting service by a cooperative, bank or private institution. By maintaining records the IVA tax paid for inputs can be offset against the IVA tax collected in connection with the sale of crops. This is legal under the GOC law and greatly reduces the net IVA that a small farmer pays. USAID has discussed with ODEPA and INDAP the possibility of establishing a system whereby all farmers obtaining subloans would be provided with instructions for keeping records which would entitle the sub-borrower to offset taxes paid on inputs and sales. Formulation of a system has been delayed because of higher priority tasks. USAID will continue to urge the Borrower to develop the system. Accordingly, no recommendation is considered necessary.

D. Project No. 513-0296, Rural Cooperative Upgrading

The USAID entered into a grant agreement with the Cooperative Finance Institute (IFICOOP) on September 30, 1976 for the purpose of improving the efficiency and adequacy of the managerial capacity and service capability of rural cooperatives which are primarily composed of low-income traditional farmers. The project objective is to upgrade the staffs of the cooperatives that participate in the project by providing technical and material assistance. The 17 participating rural cooperatives are those that receive subloans under Loan No. 513-065, but for various reasons, i.e., poor management, market conditions, etc., have not been able to repay the loans.

At January 31, 1979, $155,436 of the $250,000 project funds had been expended.

The project agreement provides that additional funds will be contributed to the project: Loan -065 - $63,754; IFICOOP - $57,663; and participating cooperatives - $11,000. At January 25, 1979, other funds provided were: Loan 065 - $30,368; IFICOOP - $42,295; and cooperatives - $5,882.

The original project completion date was March 1, 1981; however, the budget submitted to USAID in May 1978, provides for the disbursement of funds through 1979 with project objectives being met by the end of 1979.

Implementation of the project was delayed 18 months because of two reasons. First, as a result of a GOC decision not to be considered in the Congressional Presentation for future funding, the project was reduced from $1,016,000 to $250,000. With the reduced funding level, the number of regions in which the upgrading program was to take was reduced from four to two, and the number of rural cooperatives to benefit directly was reduced from 80 to 17. Secondly, because of IFICOOP's cash flow problems lending operations ceased and IFICOOP underwent a reorganization. As a result actual project implementation did not begin until March 1978, when IFICOOP appointed a project director, hired a resident advisor and contracted with four organizations to implement the project.

Two of the AID financed contracts are for instructional purposes: (1) Institute for Cooperative Auditing (AUDICOOP), a $3,000 contract to prepare accounting manuals and instructional materials, and to present courses to cooperative staff and management in accounting and internal controls. All manuals and instructional material have been prepared and accounting courses were presented to 49 cooperative members. (2) Center for Cooperative Studies of Catholic University (CECUC), a $12,000 contract to conduct classes in economic and financial program systems, cooperative organization and to provide technical assistance to regional institutions and the cooperatives. Classes have been presented to 62 cooperative members. The USAID Rural Development Office considers the instruction to be good and has suggested to IFICOOP that it be presented to all member cooperatives on a reimbursable basis.

Two other AID financed contracts are with regional organizations: Fundación Pedro de Valdivia of Region X, for $106,896 and Planning for Rural Development (PLANDER), of Region VII for $114,577. This is the first time that regional organizations supported by IFICOOP have been used to upgrade cooperatives. Previously, upgrading consisted of no more than providing a troubled cooperative with a temporary manager. All of the cooperatives selected for upgrading are in deep financial trouble with delinquent loans, but IFICOOP believes they stand a good chance of becoming profitable with assistance from this project.

Under the project supported upgrading program the 17 selected cooperatives in Regions VII and X received intensive training from CECUC and AUDICOOP. Technicians from PLANDER and Valdivia reviewed each cooperative's

internal structure, management, budgeting, etc., and are now in the process of providing training and advisory assistance to the cooperatives. Each cooperative will receive assistance for about six months. Overall assistance is monitored by the resident advisor under a two-year AID financed contract in the amount of $30,240. We discussed the upgrading project with technicians from PLANDER and Valdivia, the resident advisor and members of three of the nine cooperatives that were participating in the upgrading program at the time of our audit. The training and advisory services provided under the project are satisfactory, and barring unforeseen events, the upgrading program will make the cooperatives capable of providing their members with the services for which they were organized.

E. Project No. 513-0271, Child Nutrition

This project was initiated on February 1, 1975 and has been a many faceted vehicle to advance child nutrition programs in Chile. Funding has been provided by five project agreements (ProAgs) and two Operational Program Grants (OPGs). The National Council for Food and Nutrition (CONPAN), an agency of the GOC, is the implementing agency for the ProAgs and the Seventh Day Adventist World Service (SAWS) was the implementing agency for the OPGs. As of January 31, 1979, the status of funds was:

ProAgs	Amount	Expended	Unliquidated Balance
CN-1-75	$ 50,030	$ 50,030	$ -
CN-2-75	121,000	121,000	$ -
CN-1-76	116,400	114,916	1,484
CN-1-TQ	32,200	31,645	555
CN-1-77	40,000	39,050	950
Total ProAgs	$359,630	$356,641	$ 2,989
OPGs			
513-011	$120,000	$120,000	$ -
513-271	120,000	120,000	-
Total OPGs	$240,000	$240,000	$ -
Total Project	$599,630	$596,641	$ 2,989

1. Pro-Ag CN-1-75 (March 25, 1975)

The purpose of this Pro-Ag was to provide funds to three volunteer agencies to conduct nutritional studies.

Catholic Relief Services (CRS) - $15,380 to make a pilot project study of breast feeding. It was concluded that maternal feedings up to a minimum of six months was a good method to improve the nutritional level of infants.

Seventh Day Adventist World Service (SAWS) - $10,150 to make a study on how to bring malnourished children back to health and educate the parents. This was the forerunner of the Operational Program Grants.

Cooperative for American Relief Everywhere (CARE) - $24,500 to study primary school feeding in marginal areas and establish actual nutritional needs. A study of 19,200 children in the 6-12 age group from 400 schools was made. The final report contains many statistical tables but no conclusions. USAID did not consider the study of much value and material was not used in future child nutrition studies.

2. Pro-Ag CN-2-75 (April 22, 1975)

This Pro-Ag provided funds in the amount of $121,000 for Community Systems Foundation (CSF) to develop a national nutritional planning system. The study provided the basis for the Nutritional Development Loan 066. The contractor's performance was rated as outstanding by the USAID and CONPAN.

3. Pro-Ag CN-1-76 (December 19, 1975)

The purpose of this agreement was to carry out a series of activities in the field of nutrition. Jorge Weinberger & Associates was contracted to conduct an in depth analysis of GOC major institutional feeding programs. The amount of the contract was $19,922 and the study resulted in a school feeding pilot project under Loan 066.

Grant funds of $41,658 were provided to develop a mechanized data system (MDS) which provides up-to-date information about inputs and outputs of PL 480 and locally provided food. All feeding centers and warehouses are included in the system. The system utilizes an IBM 2741 located at the University of Chile Computer Center with a terminal computer at the USAID. Contractors' costs and inputs are shown below:

JRB Associates	$ 9,665	Design the MDS
IBM	23,100	Computer Program Development
Logical Technical Services	3,727	Review and improvement of the MDS
IBM	3,089	Terminal. $675 unliquidated
Telephone Company	2,077	Telephone line to the USAID computer. $809 unliquidated.
Total	$41,658	$1,484 unliquidated.

Other nutritional studies under ProAg CN-1-76 were made as possible lead-in projects to Loan 066.

a. Mapuche Indian Nutrition Study ($15,619)

Advisors in Methodology and Research (AMI) and the Institute for Development of Indigenous Populations (IDI) made an analysis of the nutritional status of the Mapuche Indians. The conclusion was not to pursue the subject further.

b. Study of the National Program for Supplementary Feeding (PNAC) ($3,395)

AMI also made a study of the milk distribution program of the National Health Centers (SNS). The study concluded that PNAC had some logistical and management problems. CONPAN is working with PNAC to improve the milk distribution system.

c. SNS Maternal/Infant Registry ($2,500)

The Centers for Research and Education (CIDE) made a study which was the beginning of CONPAN's Nutritional Information System Project called Sensors.

d. Evaluation of Breast Feeding Project and Targeted Malnourished OPG ($7,953) by Joyce King

Breast feeding is a current CONPAN project and the OPG was successfully concluded in December 1978.

e. Development of a Project Design for the Potable Water Pilot Project and Rural Environmental Sanitation Project ($26,200)

The Community Systems Fourdation was the contractor. The work done is being used for an environmental sanitation pilot project under Loan 066.

4. Pro-Ag CN-1-TQ (August 31, 1976)

Additional funds were provided under the grant to carry out more nutritional activities.

Terra Institute was contracted for $16,900 to develop baseline data and institutional and project analysis required to prepare a Project Review Paper for an Integrated Community Nutrition Loan Paper.

This information was not used as the GOC, because of the human rights issue, requested that no new projects be presented to the U.S. Congress.

Horacio Lira, Inc. was contracted for $1,800 to start up the environmental sanitation pilot project and provide sanitary engineering services to CONPAN.

Funds in the amount of $4,686 were used to design and print 1977 Title II PL 480 Health and Nutrition calendars. Lastly, $6,000 was provided for professional services to operate the MDS computer, of which $555 is unliquidated.

5. Prc-Ag CN-1-77 (December 29, 1976)

The purpose of this grant in the amount of $33,500 was to finance regional seminars which explained the Nutritional Assistance Program in support of the GOC's Minimum Employment Program. This was a food for work program using Title II PL 480 food inputs. The seminar program was sponsored by USAID, the Ministry of Interior, CRS, and Caritas. There remains an unliquidated balance of $950.

In addition, the grant provided $6,432 for 1977 Title II PL 480 calendars.

F. Operational Program Grants

The first OPG was effective June 26, 1975 and the follow-on OPG began on May 27, 1976. The purposes of the OPGs were to deliver Title II PL 480 food to malnourished children and to provide partial support to design, establish and test an intervention program for malnourished children in the zero to five-year old group in all geographic areas of Chile.

The final expenditures of OPG funds were made November 9, 1978. A breakdown follows:

Personal Services		
Program Coordinator	$ 3,636	
Project Manager	6,000	
Technicians:		
Nutritionists	13,984	
Project Implementors	15,252	
Subtotal		$ 38,872
Technical Assistance		
Customs Clearance	$ 5,788	
Evaluation	32,547	
Education and Training	6,708	
Subtotal		$ 45,043
Travel and Per Diem		
For non-professionals	$ 867	
For professionals	11,550	
Subtotal		$ 12,417
Commodities		
Sacks & bagging	$75,256	
Training Materials	59,712	
Subtotal		$134,968
Logistics and Support for Education Program		
Education Program		8,700
GRAND TOTAL		$240,000

The objectives of the OPGS were fivefold:

(a) To deliver Title II PL 480 food to about 1,200 National Health Services (SNS) clinics where the malnourished children are being cared for. This is being implemented by SAWS/OFASA which provides corn soya meal (CSM), Wheat Soya Blend (WSB) and oats. During 1978, food was provided to 108,000 malnourished children. Each child receives four kilograms of food per month. The three commodities are packed in one kilogram polyethylene bags. The bag contains legends indicating that the food is for recuperation of the child's health.

(b) Develop curricula for training courses in nutrition. SAWS produced 21 different films on child nutrition, prepared 25 different audio-visual materials for teaching nutrition and purchased the following commodities for use with the training courses: rota folios (blackboard with felt training aids), two slide projectors, one film projector and two cameras. Training courses have been presented at SNS clinics throughout Chile.

(c) Design, write and print educational materials for two types of nutrition education programs, one for training of mothers and the other for educational materials for mothers. Extensive instructions have been prepared by SAWS/OFASA for food preparation. Periodic information bulletins have been prepared. Both of these have been distributed to mothers at the SNS clinics.

(d) Conduct training courses. In addition to the training courses held for mothers using the materials in (b) above, other courses have been held by SAWS/OFASA as follows: 23 seminars were held for SNS clinic volunteer workers in which 300 volunteers were trained and nine regional seminars were held which were attended by doctors, nurses, social workers, nutritionists and other personnel from SNS. Approximately 800 attended these seminars.

(e) Design and establish data systems. SAWS contracted with a Chilean company, Nutrition and Food Engineering (INUAL) for an evaluation of the SAWS/OFASA Program in clinics and to provide technical assistance to design and implement an information system and to train SAWS/OFASA personnel in the use of the system. The amount of the contract was $32,547. Health and nutrition data sheets were designed and are used in all SNS clinics. In addition, a food consumption survey was initiated and is being continued by CONPAN. The final report of INUAL states that the results of the program are surprisingly positive, with a recovery of 30 to 40 percent of slightly malnourished children and 60 to 70 percent for severly malnourished children.

In conclusion, the OPG was successfully completed with all objectives met. The intervention program developed under the OPG has become a regular part of the Maternal Child Health program of SNS, with a yearly agreement signed by SAWS, SNS and USAID. SNS is now paying for packaging, transportation and warehouse cost of the PL 480 food.

A national statistic is that the mortality rate of children from one to four years of age has decreased from 2.63 deaths per 1,000 in 1974 to 1.68 in 1977.

G. Project No. 513-300, Day Care for Hardship Children

This project was initiated on September 28, 1976 to assist the YMCA/Chile in operating the day care center at San Bernardo Centro de Atención Diurna (CAD). The purpose of the project is:

1. Improve the mental, physical, and emotional well-being of "hardship" children, especially through improved nutrition in the 6-14 age group.

2. Increase the income of "hardship" families and reduce social problems such as juvenile delinquency and abandonment.

3. Ultimately deliver increased benefits and services to "hardship" children at no additional per child cost, in order to demonstrate that complete day-care centers -- those which provide nutrition, scholastic reinforcement and vocational education components for the participants, and family education and technical training for the parents -- are feasible for children living in irregular home situations, and that such centers are a viable and preferable alternative to placing children in orphanages or open day-care centers.

To implement the project A.I.D. provided the YMCA/Chile Operational Program Grant funds of $108,250. The project was completed in December 1978 and the final status of funds was:

	Obligated/Expended
Workshops	$ 44,360
Scholarship Program	26,435
Feeding Program	7,600
Technical Assistance	29,855
Total	$108,250

a. Workshops

Equipment was provided for sewing, electrical/carpentry and printing shops. A technical training program has been established which is developing the basic skills in boys and girls to earn money while they are at CAD and prepare them to enter a technical training school upon completion of elementary school. Night classes are held for parents to enable them to obtain a skill. In addition to training purposes, the equipment is used to make articles and printed materials used in the Center.

b. Scholarship Program

Tables and chairs were provided for three classrooms. In addition, OPG funds were used to purchase textbooks, copybooks, audiovisual equipment, lockers and tables and chairs for the library. The scholarship program reinforces the children's education by providing coaching and tutoring from volunteer teachers. Also regular classes are held for children not enrolled in public schools. The Center has two full time social workers and a psychologist. All children are given psychological, emotional and physical tests and are provided counseling which is also available to the parents. Additional services provided at the Center by volunteers are medical and dental treatment and legal aid.

c. Feeding Program

A baking stove, a cook stove, refrigerator, trays, cups and tables and chairs for the dining room were procured. CRS supplements the feeding program with Title II PL 480 food. The Center also receives food donations from other sources.

The children receive three meals a day, six days a week.

d. Technical Assistance

To develop the project USAID contracted the personal services of two Americans for $8,250. The OPG also financed the peso equivalent of $21,605 to contract a Chilean team consisting of a psychologist, a sociologist and a statistician to make a study of the benefits derived from the CAD Center compared with other types of centers. The study revealed that the percentage of improvement in the intellectual, individual motivation and orderly behavior areas was higher for the CAD Center Children than children from other centers. The final report concluded that the performance of both boys and girls from the CAD was better because the child is given assistance away from home for part of the day but does not lose touch with the family, thus developing more solid emotions.

In addition to A.I.D. assistance, the Center has received the peso equivalent of $51,058 from the YMCA for salaries, operating costs, parents' clubs, workshops, the scholastic program and a counseling program. The National Council for Childhood has contributed the peso equivalent of $70,235 for salaries, the feeding program and operating costs.

The CAD Center supports 300 hardship children. After some initial management problems, the Center now has a capable director and staff.

Project purposes have been met. The mental, physical and emotional well-being of the "hardship" children has been improved. The children receive three meals a day, attitudes and learning capacity have been improved due to the atmosphere of the Center and the personal helpfulness of the staff. To help "hardship" families increase their income training courses are offered as well as some part time work in the Center. In addition, the Center has a placement office. Social problems have been reduced by having the children in the center under supervised conditions. Also free medical services and legal aid are available. Studies have shown that the increased benefits and services of a complete day care center are preferable to orphanage or open day care centers.

City officials of Antofagasta and Valparaiso are impressed with the results of the CAD and similar centers will be opened in those

cities. The cities have donated land together with limited facilities to the YMCA for developing the same type of a day care center.

H. Project No. 513-0305, Child Recuperation Centers

This Operational Program Grant in the amount of $320,500 is for the purpose of assisting a child nutrition recuperation program for seriously malnourished children under two years of age. The program is being implemented by the Child Nutrition Corporation (CONIN), a private non-profit foundation. The effective date of the Grant was March 23, 1977. As of January 31, 1979, $209,403 had been expended. The objective of the Grant is to help improve the effectiveness of the program through development and implementation of (1) evaluation activities and (2) a systematized training program for recuperation center personnel as well as an educational program directed at the families and communities where malnourished children live. In Chile, the death rate of children in the zero to two years age group in families that live in extreme poverty is very high. To cope with the problem CONIN started the first recuperation center in 1975 with 30 severely malnourished children under two years of age. Results were impressive and the program has grown until at present there are 22 centers throughout Chile that can accommodate 1,400 children.

Project implementation was delayed about six months because of the difficulty in gathering information, hiring technicians and determining exactly what was needed. Both the evaluation and training programs made considerable progress in 1978. Training programs for professionals, volunteers and families have been developed and will be presented during 1979. Evaluations have been made in the areas of medicine, nutrition, psicomotors and social. In addition, teams are making evaluations of the centers in order to find better methods of operation. Because of the delay in implementation the program will not be completed by the original project completion date of June 30, 1979. An extension to December 31, 1979 will be requested by CONIN.

SAWS/OFASA has an agreement with CONIN under the PL 480 Maternal Child Health Program to furnish the recuperation centers with three types of food: oats, corn soya meal and wheat soy blend. During our visits to the centers we noted they had also received cooking oil. We discussed this with SAWS and USAID officials. They stated the CONIN program had been misclassified as being under the nursery feeding program which entitled them to oil. Since the caloric content of oil is needed for recuperation of the malnourished children and SAWS can furnish oil from stocks on hand, USAID has decided to continue furnishing the CONIN centers with cooking oil. The centers have been reclassified as being under the Maternal Child Health feeding program. In the future this commodity will be included in the USAID food request for the CONIN centers.

I. P.L. 480, Title II - Food Program

The P.L. 480 (Food for Peace) Program in Chile is carried out by three U.S. Private Voluntary Agencies (VOLAGs):

Cooperative For Assistance and Relief Everywhere (CARE), Catholic Relief Services (CRS), and Seventh Day Adventist World Service (SAWS), together with the counterpart agencies of the latter two, Caritas for CRS and Philanthropic Works and Social Assistance Adventists (OFASA) for SAWS.

Program inputs and recipients benefitted are as follows:

Fiscal Year	Estimated US$ (000) Value of Food	Beneficiaries
1977	12,500	1,388,000
1978	5,065	971,000
1979 (planned)	8,100	971,000
1980 (planned)	5,397	431,000

The audit of PL 480 program was limited to reviews of the VOLAG's self-audit reports, USAID files and discussions with VOLAG and USAID officials. No significant deficiencies were found.

CARE presently has three feeding programs in Chile with approximately 480,000 beneficiaries. The child nutrition program provides food supplements to about 60,000 pre-school children, a school feeding program that reaches 400,000 children during the school year and a food for work program that involves an estimated 5,000 workers and 15,000 dependents. The school feeding program is scheduled to end at the close of Fiscal Year 1979 with the feeding responsibility turned over to the GOC. The food for work program is just getting started. This program is in support of a 1,000 kilometer road building project in the South which will take about five years to complete. The workers live in camps and receive PL 480 food commodities while their dependents living at home are also entitled to PL 480 food supplements.

For Fiscal Year 1979 CRS is carrying out four feeding programs with 266,000 beneficiaries: children in other institutions, 16,000; nurseries and open dining rooms, 50,000; feeding in private schools, 100,000; and countrywide food for work projects, 20,000 workers and 80,000 dependents.

During Fiscal Year 1979 SAWS is carrying out three feeding programs for about 125,000 beneficiaries. The malnourished child feeding program is programmed to reach about 80,000 children. This program assist OPG-0271, Child Nutrition, and OPG-0305, Child Recuperation. About 30,000 children in pre-school day-care centers and 15,000 children in institutions will also receive PL 480 food supplements through SAWS.

EXHIBIT A

SUMMARY OF LOANS
USAID/CHILE
As of January 31, 1979

Agricultural Cooperative Development 513-T-065	$15,000,000	$14,084,898	$ 915,102
Nutrition Development 513-T-066	$ 5,000,000	$ 2,092,546	$2,907,454
Agriculture Production Credit 513-T-067	$14,000,000	$10,738,467	$3,261,533
Total	$34,000,000	$26,915,911	$7,084,089

EXHIBIT B

SUMMARY OF GRANTS
USAID/CHILE
As of January 31, 1979

Grant Name and Number	Obligations	Accrued Expenditures	Unliquidated Balance
Child Nutrition 513-0271	$ 599,630	$ 596,641	$ 2,989
Rural Cooperative Upgrading 513-0296	250,000	155,436	94,564
Day Care for Hardship Children 513-0300	$ 108,250	$ 108,250	-
Child Recuperation Centers 513-0305	$ 320,500	$ 209,403	$111,097
Mapuche Livestock Development 513-0310	$ 150,000	$ 62,260	$ 87,740
Technical Support 513-0000	$ 33,053	$ 26,621	$ 6,432
	$1,461,433	$1,158,611	$302,822

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