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UNITED STATES GOVERNMENT

memorandum

DATE: April 16, 1979

REPLY TO
ATTN OF: AAG/W, Rolland J. Deschambault

(PA)

SUBJECT: Memorandum Audit Report No. 79-59
Housing Investment Guaranty - Chile - Project No. 513-HG-006

TO: AA/DS, Mr. Sander M. Levin

Introduction and Scope

The Housing Investment Guaranty Program is the principal means by which the Agency for International Development provides shelter assistance to developing countries. Under this program, the U.S. Government provides a "full faith and credit" guaranty of repayment for long-term commercial-rate loans made by private U.S. lenders for housing projects in developing countries.

Under Housing Investment Guaranty No. 513-HG-006, the U.S. has guaranteed \$55 million in housing loans to the Government of Chile (Borrower) acting through the Central Bank of Chile. The first of these loans, in the amount of \$30 million, was made to the Borrower by the Federal Home Loan Bank of New York on January 26, 1976. A second loan, in the amount of \$25 million, was made by the Morgan Guaranty Trust Company on February 23, 1977.

Implementation agreements with the Borrower provide that, of the \$55 million in loan proceeds, the Central Bank of Chile will allocate \$30 million to the Housing and Regional Development Service (SERVIU), \$20 million to the Central Savings and Loan Fund (Caja), and \$5 million to the Cooperative Finance Institute (IFICOOP). The objectives of the project are to provide financing for over 11,000 housing units for basically low income families and the institutional development of the implementing agencies.

As of August 31, 1978, the Central Bank has received loan proceeds of \$55 million and had disbursed \$52,260,279.

The project is managed by AID's Regional Housing and Urban Development Office for Panama and South America (RHUDO/PSA) under the direction of the Office of Housing. The Office of the AID Representative in Chile performs ad hoc monitoring functions as requested by RHUDO/PSA.

We made an interim examination of Chilean Investment Guaranty Project No. 513-HG-006. The examination covered activities through August 31, 1978. The purpose of our examination was to evaluate effectiveness of project management, progress toward project objectives, and compliance with governing agreements. It included examination of pertinent documents, records and reports; inspection of construction activity at selected sites; and discussions with officials of the Government of Chile, the implementing agencies and USAID.



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

OPTIONAL FORM NO. 10
(REV. 7-76)
GSA FPMR (41 CFR) 101-11.6

FINDINGS

Status of Project

As of August 31, 1978, a total of 10,524 housing units were completed under this project and 1,917 housing units were under construction. The project was about nine months behind schedule because IFICOOP had been unable to undertake the rural housing component as planned. It had difficulty in locating eligible cooperatives in rural areas; it was also beset with financial difficulties. The responsibility for this aspect of the project was transferred to SERVIU in early 1978. SERVIU appears to have successfully overcome the problems encountered by IFICOOP, and the requisite rural projects and homes are being built.

Our overall review indicated that the project is being effectively managed and project objectives are being met.

Advance to IFICOOP

During late 1976 and early 1977, the Central Bank of Chile advanced the equivalent of \$101,486.48 of project funds to IFICOOP as authorized by loan agreements. These funds were expended by IFICOOP for rural housing construction activities. It was intended that these construction costs would be allocated to individual housing units and would then become part of eligible mortgages. It has since been decided that the program will be withdrawn from IFICOOP and transferred to SERVIU. This will relieve IFICOOP from the responsibility of generating mortgages. In accordance with existing agreements and pertinent laws of the Borrower, the Central Bank of Chile must now take steps to assure that \$101,486.48 of project funds advanced to IFICOOP is replaced and used in accordance with project purposes. Central Bank of Chile officials informed us that if they were unable to obtain a refund of this advance from IFICOOP, they would replace these funds in the project account from their own resources.

Recommendation No. 1

Regional Housing and Urban Development Office/Panama and South America follow up with the Central Bank of Chile to assure that the \$101,486.48 equivalent advanced to IFICOOP is replaced for eligible project uses.

Reporting

Five separate reports are required to be submitted to AID by the Central Bank of Chile, according to Annex B of the February 23, 1978 Implementation Agreement. They are - Financial Report, Remittance Reconciliation;

Delinquencies and Foreclosures; Readjustments; and Program Performance. Of these required reports, only the Program Performance Report was being submitted. We found no evidence that RHUDO/PSA had followed up to obtain the missing reports. Among the reports not submitted was the Quarterly Report on Delinquencies and Foreclosures. RHUDO/PSA agreed that the required reports should be obtained, particularly since they include information necessary for AID's monitorship functions.

Recommendation No. 2

Regional Housing and Urban Development Office/Panama and South America request the Central Bank of Chile to furnish reports as required by Annex B to the February 23, 1978 Implementation Agreement.

HOUSING INVESTMENT GUARANTY - CHILE

Project No. 513-HG-006

REPORT RECIPIENTS

Assistant Administrator, Bureau for Development Support (AA/DS)	1
Director, Office of Housing (DS/H)	5
AID Representative/Chile	1
Chile Desk (LAC/SA)	2
Deputy Administrator	1
Auditor General	2
AAG/LA	2
AAG/EA	1
AAG/NE	1
AAG/EAFR1	1
AAG/WAFR	1
AAG/Egypt	1
AAG/W	1
AG/IIS	1
AG/PPP	1
AG/EMS	12
DS/DIU	4