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From : Area Auditor General, Latin America

Subject: Memorandum Audit Report of USAID Nicaragua's Industrial Development Projects, Report 1-524-75-37.

We audited two USAID Industrial Development projects as of December 31, 1974. One project, a \$4.8 million loan (524-L-018) was completed in June 1974 and the other, a \$479,000 technical assistance grant was completed at the end of 1974. Our main purpose was to determine if objectives were achieved in terms of the planning documents and if the Mission is preparing for an orderly termination of the projects.

In performing our limited review we used generally accepted auditing standards giving due consideration to AID regulations. This report, which contains one recommendation, was presented to Mission management for review prior to publication and incorporates their comments.

Prior audit reports provide detailed background information on the two projects discussed herein. In summary, they were designed to provide low cost capital to an industrial development bank for sub-lending to high-risk industries (Loan 018, project 524-26-920-069, INFCNAC); and to strengthen the Nicaraguan Chamber of Industries (CADIN) to render it capable of solidifying and providing guidance and direction to the industrial community (grant project 524-15-290-091). The objective was to stimulate industrial production and increase exports. A financial and audit coverage summary appears on page 4.

Under both projects we believe objectives were satisfactorily achieved. Through Loan 018 (and its precursor Loan 009) the bank provided sub-loan and equity financing for 91 (of a targeted 100) high-risk enterprises. This financing assisted in the creation of seven new firms, and the expansion and more effective operation of 84 other firms. Moreover, the bank, with AID financial and technical support has apparently developed its internal operation to a degree where future sub-loan activity can be continued without further external assistance. Annual operating losses of about \$1,106,000 in 1968 have been reduced to \$245,000 in 1973.

As a result of AID's \$479,000 grant assistance since 1971 to the Chamber of Industries and the Export Promotion Center, more than fifty industries have received technical assistance in augmenting their export markets through training, studies and other research activities on management, marketing, production, technology and finance. Although many of the studies were lost or destroyed in the December 1972 ear quake, the Chamber had established the capability whereby it was able to initiate and complete an analysis for determining the fixed investment and working capital requirements of the Nicaraguan industrial sector. This analysis was used by the Government of Nicaragua in its restructuring and assigning of emergency priorities resulting from the earthquake. Also, Chamber and Export Center employees' salaries, once paid through AID grant funds, are now being paid directly by their respective employers. Legislation has been introduced into the Nicaraguan Congress whereby the Export Promotion Center which currently compliments the Central Bank's Department of Technical Investigation, will be reorganized as a separate legal entity. Once this decree is official, the Center expects to receive an annual combined budget of nearly \$250,000 from the Government of Nicaragua and the Nicaraguan Central Bank.

With minor exceptions, Mission monitoring of the two projects was performed in a sound manner throughout the life of each project. The grant project terminated on December 31, 1974, and a final Project Appraisal Report is scheduled to be prepared. Our review of documents supporting 58 participants who received limited training in various fields of industrial development disclosed no managerial deficiencies. The loan appears to have been implemented in a similar manner, except that no Final Loan Report had been prepared. Since the loan was completed in June 1974, a final report should be filed.

Recommendation 1

USAID/Nicaragua should prepare a Final Loan Report for Loan 574-L-018, as required by M.O. 1264.1, Section IV.

- The Nicaraguan Government was required by Loan Agreement 018 to reimburse the bank for operating losses incurred during the life of the loan. It has satisfactorily fulfilled this requirement and as of

December 31, 1973, total reimbursed losses amounted to nearly \$4 million.

Prior audit report recommendations have been cleared and past deficiencies appeared to have been corrected in a satisfactory manner.

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USAID/NICARAGUA INDUSTRIAL DEVELOPMENT PROJECTS  
SCHEDULE OF U.S. CONTRIBUTION AND VALUE OF AUDIT COVERAGE  
AS OF DECEMBER 31, 1974

<u>PROJECT OR LOAN TITLE AND NUMBER</u>	<u>AUDIT REPORT</u>		<u>DISBURSEMENTS</u>	<u>AUDIT COVERAGE</u>
	<u>NO. 1-524</u>	<u>DATE</u>	<u>(IN THOUSANDS)</u>	<u>(IN THOUSANDS)</u>
Industrial Development 524-15-290-091	73-13	9-15-72		\$ 83
	75-37	1-20-75		368
			\$ 451	\$ 451
Industrial Devel. Bank Loan 524-L-018 524-26-920-069	71-21	11-13-70		\$ 1,423
	73-1	8-18-72		1,442
	75-37	1-20-75		1,910
		\$ 4,775	\$ 4,775	
TOTAL			\$ 5,226	\$ 5,226

Note: Both projects have been completed. However, in Project 524-15-290-091, which included financial support to the Nicaraguan Export Promotion Center, about \$28,000 remains undisbursed pending receipt of final reimbursement request. Mission is taking appropriate action.