

**AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523**

**OFFICE OF THE AUDITOR GENERAL  
AREA AUDITOR GENERAL - LATIN AMERICA**

**AUDIT REPORT  
USAID/BRAZIL  
FINANCIADORA DE ESTUDOS DE PROJETOS, S.A. (FINEP)  
LOAN No. 512-L-054**

**COPY No. 12**

**For the period January 1, 1970  
through December 31, 1972  
Audit Report No. 1-512-73-91  
March 28, 1973**

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REPORT ON EXAMINATION  
OF  
FINANCIADORA DE ESTUDOS DE PROJETOS, S.A. (FINEP)  
LOAN No. 512-L-054  
FOR THE PERIOD  
JANUARY 1, 1970 THROUGH DECEMBER 31, 1972

SECTION I - SCOPE OF EXAMINATION

The Brazil Residency of the Area Auditor General, Latin America, has performed a final examination of the subject loan. This was the second audit review of loan activities and covered the period from January 1, 1970 through December 31, 1972. The audit work was performed intermittently from September 25, 1972 to January 31, 1973.

The primary purpose of the examination was to review and evaluate the effectiveness of the utilization of loan proceeds. Other purposes were to determine the quality and effectiveness of financial and administrative management and the degree of compliance with the loan provisions and AID policies, procedures and regulations. We also included in the scope of our examination an evaluation of the progress and management of the two FINEP grants to the Meteorological Service (DEMET) and the São Francisco Valley Authority (SUVALE) because of USAID/Brazil's (USAID/B) role as coordinator in the procurement of U.S. technicians, commodities and participant training for the grantees.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the financial records and loan related documents as were considered necessary in the circumstances and discussions with concerned USAID/B, Government of Brazil (GOB) and other personnel.

Before issuance this report was reviewed with appropriate USAID/B officials and their comments were given due consideration.

## SECTION II - BACKGROUND INFORMATION

Financiadora de Estudos de Projetos (FINEP) was founded by the GOB for the purpose of promoting and financing feasibility studies. Originally established in March 1965 as a fund within the Ministry of Planning, FINEP became a public corporation in 1967 funded by the GOB through the Ministry of Planning. Created as a mechanism to bridge the gap between identifiable investment opportunities and available international financing, FINEP existence demonstrated that the concept of analytical planning in economic development was being given more importance than it had previously been accorded.

When founded, FINEP was envisioned as a fund offering grants and low cost loans for feasibility studies through various banks in Brazil. This plan anticipated that a large part of the technical and administrative activity would be performed by the banks as financial agents. Accordingly, only a small, specialized administrative structure was established within the Ministry of Planning to administer the fund. However, because of management problems, the apathy of the banks proposed as financial agents, and a lack of coordination, the necessary network of financial agents did not evolve and commitments proceeded at a slow rate.<sup>1/</sup>

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<sup>1/</sup> See Audit Report No. 42/70 dated February 17, 1970.

The 1967 transformation of FINEP into a public corporation gave it an identity as a development institution which could deal directly with the market. Legal flexibility and operational control were thought to be the necessary characteristics to enable FINEP to establish itself and promote a clientele. However, the management leadership needed was still not available or experienced enough and FINEP's stance remained substantially passive with little significant change in its rate of activity.

Created without funds, FINEP's initial action in 1965 was to request seed capital of \$5 million each from both USAID/B and the Inter-American Development Bank (IDB). USAID/B pending a review of the loan application and subsequent approval, made a grant of Cr\$1 million from P.L. 480, Title I funds in August 1965. In October 1965, FINEP and the IDB concluded a \$5 million loan agreement. Meanwhile USAID/B began to view FINEP as an instrument through which technical assistance could be funded on a loan basis rather than by grants. Subsequent discussion resulted in the authorization of a loan on June 3, 1966, of \$11 million; the additional \$6 million being earmarked to fund natural resource surveys on a grant basis.<sup>1/</sup>

Our prior audit covered commitments of \$9,007,105 and disbursements of \$4,134,425 through December 31, 1969. It

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<sup>1/</sup> The program for these funds had been substantially decided on by USAID/B and the GOB when the loan agreement was signed, namely FINEP grants to DEMET and SUVALU.

also covered total activity relative to the P.L. 480 grant funds of Cr\$1 million.

A Financial Implementation Survey subsequently performed by the USAID/B Controller in the latter part of 1970 disclosed that there had been no solution to any of the problems cited in the February 1970 audit report, as mentioned above. This action ultimately led to a deobligation of \$2,055,802 in 1971 leaving a loan authorization of \$8,944,198.

As of November 30, 1972, the financial status of the loan was: committed - \$8,936,998; uncommitted - \$7,200; disbursements - \$7,531,767; and undisbursed - \$1,405,231. For a detailed financial breakdown, see Exhibit A.

### SECTION III - SUMMARY OF EXAMINATION

The slow rate of progress demonstrated by FINEP through 1969 did not significantly change until 1972. The decision of FINEP to allow the financing of the final engineering plans, the development of financial agents, the acquisition of additional experience, and also the booming economy all combined to radically increase the 1972 loan activity over that of prior years. Present funding from the GOB and from the anticipated proceeds of a new IDB loan appear to be adequate for the current rate of demand.

Over \$2 1/2 million of this loan remained to be committed at the conclusion of our prior audit in 1969. The bulk of the financial activity during the years 1970 through 1972 was for disbursements applicable to commitments made prior to the end of 1969. The greatest part of this went to the two grant projects, DEMET and SUVALE. The year 1970 saw only about \$178,000 of new commitments made. Consequently, USAID/B deobligated \$1,800,000 in January 1971 after a financial implementation survey by the Controller. An additional \$255,802 was deobligated in November 1971. Further deobligations may be in order as the residual balances of various implementation orders are determined.

FINEP monitoring of the use of its sub-loans has been perfunctory and of a surface nature but with no obvious ill results. With respect to the more than \$5 million granted to

DEMET and SUVALE, monitoring by FINEP has been next to nil. The Superintendency for the Development of the Northeast (SUDENE)<sup>1/</sup> had been charged with the responsibility of monitoring SUVALE activity but when it did not perform, FINEP took no corrective action. DEMET activity was left to the apparently adequate surveillance of the Ministry of Agriculture. USAID/B as coordinator for the procurement of technicians,<sup>2/</sup> supplies and training, was quite active keeping abreast of SUVALE and DEMET activity. Because of USAID/B's role as a procurement agent for the grant recipient of an intermediate credit institution, it could do little to directly influence the course of the projects when problems were encountered.

The major and basic problem encountered in the FINEP grant projects was that of acquiring adequate personnel, in both quantity and quality. This deficiency was felt less in DEMET since a good part of that project's purpose involved the acquisition of equipment. In the case of SUVALE, the lack of personnel was felt acutely. Shortly after the commencement of both of the grant projects, the GOB prohibited the increase of personnel in all government agencies. This

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<sup>1/</sup> Regional development agency responsible for the coordination of the various federal development projects in the Northeast region. As a party to the grant agreement, it was designated the coordinating agency and charged with the responsibility of monitoring SUVALE's development activities.

<sup>2/</sup> USAID/B procurement of technicians was through the medium of Participating Agency Service Agreements (PASA) with the National Oceanic and Atmospheric Administration for DEMET and the Bureau of Reclamation for SUVALE.

penalized SUVALE severely since it was a new agency and just beginning to hire personnel to form the core of an organization that was to grow to a size adequate for the task before it. However, even the consent to hire a few people above the "freeze" level provided little relief since salaries were also subject to the "freeze." It was not long before the wages offered by private industry siphoned off the more qualified personnel after they had gained a little experience and training. This problem has continued until the present.

We view this personnel problem as merely a symptom of a more substantive issue, i.e., the priority given these projects by the GOB. In various ways, other GOB organizations have solved the same problem and are achieving positive results. It therefore appears that if the GOB conceded adequate priority to SUVALE, personnel would not have been a problem and the project would probably have achieved a much greater degree of success than that currently realized. Regarding DEMET, it undoubtedly would have come much closer to realizing the original goals established and be in a position to better fulfill its responsibilities had proper priority been accorded by the GOB.

There is a desire by the U.S. technical assistance team assigned to SUVALE to see an extension of the project beyond the present expiration dates. This is expressed at

a time when the Ministry of Interior is expecting a report from the Development Resources Corporation which may have significant bearing on the future of SUVALE as an institution and the development of the São Francisco Valley.<sup>1/</sup> Consequently, we have recommended that the Mission's decision on whether or not to consider an extension of the agreement providing for the services of the U.S. technical assistance team be based on a review of the GOB's declaration that the assistance would be in line with current GOB priorities.

This report contains one recommendation.

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<sup>1/</sup> For further explanation, see page 26.

SECTION IV - FINDINGS AND RECOMMENDATIONS

**A. FINEP**

**1. Institutional Progress**

Overall, until 1972, the desultory rate of activity did not change substantially from that noted in the previous audit. FINEP had not developed a system of agents, cash balances were continuing to increase and the rate of loan activity was slow. During 1972, all of these trends reversed. At the end of the year, six organizations were active as agents, the number of projects financed had more than doubled the 1970 number (12 times the 1969 number), and the cruzeiro volume was more than twice that of 1969 or 1970.

It appears that the financial resources provided by the GOB and the proceeds of loans from the IDB have been adequate. We were informed by FINEP officials that present funding appears adequate for the time being but not sufficient enough to warrant a large scale promotion of their service. Their conclusion anticipates the receipt of another \$5 million loan from the IDB in the near future.

FINEP attributes the increased activity to several reasons. Among these are:

- a. Inclusion of engineering planning studies that were prohibited by the terms of the AID loan;
- b. Use of financial agents;
- c. The increasing tempo of the Brazilian economy; and
- d. The accumulation of several years of experience.

We noted that over 61 percent of the 75 projects financed (using over 79 percent of the loaned funds) in 1972 were of state and federal government origin. Less than one-fourth of the 1972 projects were identified as feasibility studies. FINEP contended that the AID loan covenants excluding engineering plans inhibited the use of the loan proceeds. The quickened pace that accompanies the new philosophy lends some credibility to their position. On the other hand, loans solely for the development of engineering plans are not consistent with the scope of activity as initially contemplated. A palliative note is that FINEP does not have as large a portion of idle funds as it would otherwise have. The present attitude of FINEP is based on the expressed desire of the loan applicants to combine the feasibility study and engineering costs in one package since the latter is a natural result of the former. The relatively small percentage of private enterprise participation is attributed to the fact that this sector usually finances its own feasibility studies and costs of engineering plans are included in the construction or business loan.

## 2. AID Loan Proceeds

Since the completion of our previous audit in December 1969, there has been very little new activity with the proceeds of this loan. Most of the money flow

is attributable to commitments made prior to the end of 1969 even though approximately \$2 1/2 million remained to be used. In January 1970, approval was given for a \$79,703 São Paulo Railroad Markets Study and in December 1970 a commitment of \$98,876 was made to the Federal Data Processing Service (SERPRO).

In January 1970, USAID/B extended the loan commitment date to December 31, 1970 with the provision that before the end of the year an evaluation of FINEP utilization of these funds would be made and any excess would be deobligated. In November 1970, the USAID/B Controller issued a Financial Implementation Survey which disclosed that FINEP had done little during the year 1970 to change its course and become effective as an institution or make more efficient use of the funds it had in its charge. Consequently, the Controller recommended that \$2,056,530 of the loan be deobligated, this amount "representing the known total of residual balances and the uncommitted balance of the loan." In January 1971, USAID/B took action to deobligate \$1.8 million and an additional \$255,802 in November 1971. A small balance of \$7,200 remains to be deobligated.

Beyond this small balance, there are residual amounts of various implementation orders that may also be eligible for deobligation. We note that the USAID/B review of these orders for possible deobligation is complicated by the late

arrival of information from AID/W where the primary loan records are maintained. Memorandum records kept in the Mission are subject to adjustment when AID/W advises of the actual disbursements. These remaining residual amounts are related to SUVALE and DEMET, both active but nearing termination. In the normal routine of business, the Mission will deobligate the residuals of the active implementation orders.

### 3. Monitoring

Early in the life of this loan, the Mission's Engineering and Natural Resources Office (ENRO) was assigned the responsibility of monitoring loan activity. This appears to have been done satisfactorily and is exemplified by the Mission's interest in the SUVALE grant<sup>1/</sup> made by FINEP. In this instance, the Mission had an additional role to procure skilled personnel, equipment and training and coordinate the arrival and utilization of such. While the problems encountered were not always solvable, the Mission was at least cognizant of them and attempted to improve the situation. Mission initiative resulted in agreement revisions as attempts to bring about positive results.

Since FINEP is the borrower of the money and responsible for the administration of the loan proceeds, it was charged with the prime monitoring responsibility. However, we found little in this regard other than the "check-off" of reports

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<sup>1/</sup> See Section IV C - SUVALE, page 21.

and due dates. In many instances, this was probably appropriate since the results of studies were normally written reports prepared by contracting firms. Nevertheless, in the cases of SUVALE and DEMET, there was an abundance of activity that was subject to inspection and a comparison of progress with work plans. In neither case did FINEP exert its influence as the donor in trying to monitor the utilization of the funds granted. In the case of SUVALE, FINEP had assigned SUDENE the role of monitor but did nothing when SUDENE failed to perform.

The FINEP explanation for the lack of monitoring was that a certain degree of timidity existed where one government entity became involved in the judgment of the activity of another. While this attitude is not to be condoned it is an inescapable fact and it is doubtful that the Mission could have anticipated this situation. Furthermore, the Mission lacked any degree of control in the cases of SUVALE and DEMET other than that of logical persuasion or withdrawal from the tri-party agreements. Withdrawal would have meant the cessation of USAID/B participation but the funds could have nevertheless still flowed to the grantee. The Mission's continued involvement appeared to be the best course of action to follow in an attempt to make the best of a less than desirable situation.

We would conclude that the future involvement of AID Missions in sub-agreements with government entities should

reserve some degree of influence for the Mission to exercise so that the U.S. image may be best projected. Section IV C of this report (see page 21) discusses the participation of a U.S. technical assistance team (TAT) in a project that can be considered substantially less than successful, yet the TAT lacked the necessary influence to alter the course of the project.

## **B. METEOROLOGICAL SERVICE (DEMET)**

### **1. Background**

In January 1967, FINEP entered into an agreement with the Ministry of Agriculture making a grant of \$2,220,501, of which \$988,800 was allocated for local currency cruzeiro costs and \$1,231,700 for dollar costs. These resources were to fund a DEMET project having the following original goals:

- a. Rehabilitation of the surface observing network;
- b. Establishment of a domestic meteorological telecommunications network; and
- c. Training the employees of DEMET.

Because of personnel shortages, changes in program management, delays in equipment delivery, and changes in the political-economic situation during the term of the project, the goals were scaled down to the following:

- a. A meteorological communications system making reports from 113 stations for world-wide and domestic use;
- b. An improved forecast system; and
- c. Well-trained employees to man the system.

### **2. Project Progress**

In June 1972, the project was about one year behind the original five-year plan. By settling for the lesser but more practical goals under the circumstances, the project was foreseen as being satisfactorily completed by mid-1973.

This projection apparently continues to be valid. DEMET is reasonably well equipped and judged to be capable of moving ahead on its own.

Since the change in DEMET leadership early in the project, the priority and resources received have been less than was apparently contemplated in the planning stages. This is clearly exemplified by the personnel situation. Planning documents indicated a desired cadre of 1,304 personnel in the final stage of the project. Instead, there are about 685 full-time personnel supplemented with something over 500 contract employees. The staff of 685 clearly contrasts with the 805 at the beginning of the project. The problem is aggravated by the fact that the DEMET chief would not permit the TAT to make a special request of the Ministry of Agriculture to permit the hiring of additional personnel. Further complication is introduced by the salary scale which is not competitive with private industry. We also noted that the GOB expenditure for personnel and operations in 1967 of about \$323,000 (in approximate U.S. dollar equivalents) had fallen to \$456,500 in 1970. A budget estimate of \$504,000 for 1971 was reported but not yet compared to actual expenditures.

The strengthening of the institutional structure envisioned by 29 man-years of participant training in the U.S. has fallen short of its goal with a total of 8 realized to

date. This has in part been offset by some technical training programs in Brazil and is partially consistent with a revised work plan that utilized some of the training funds for equipment purchases. The present management of DEMET places less emphasis on higher level education but is developing some local training programs. Other reasons cited for the participant training program short-fall were personnel turnover and the long lead-time involved in the selection and approval of applicants.

### 3. Financial Status

The financial status of the DEMET project as of November 30, 1972, is as follows:

	In U.S. Dollars		
	<u>Committed</u>	<u>Disbursed</u>	<u>Balance</u>
PASA	\$ 540,025	\$ 497,966	\$ 42,859
Commodities	638,025	578,884	259,141
Participant Training	24,410	15,638	8,772
Local Currency	<u>817,241</u>	<u>765,727</u>	<u>51,514</u>
	<u>2,220,501</u>	<u>1,858,215</u>	<u>362,286</u>
	=====	=====	=====

### 4. Conclusions

The future effectiveness of DEMET as an organization will be determined by the resources and priority allotted it by the GOB. A resolution of the problems related to personnel

and the salary structure is critical to further development of DEMET. The TAT leader feels that the equipment in-place or in the process of being installed is adequate to afford the type and quality of meteorological services contemplated in the project work plan. The only major constraint will be the adequacy of personnel, numerically and technically.

## C. SUVALE

### 1. Background

USAID/B assistance to SUVALE commenced in 1962 with a grant project providing for technical and financial support to determine the economic feasibility of development programs for the river basins in Northeast Brazil. The current work of SUVALE is Phase II of one of the studies. Of the \$11 million AID loan, FINEP has agreed to grant SUVALE \$3,040,500.

Broadly defined, SUVALE's goal has been described as being the social and economic development of the São Francisco River Basin through the exploitation of its natural resources. The Mission's role in cooperation with SUDENE and using the FINEP granted funds has been to obtain and coordinate the TAT; to arrange and provide training for participants; and to procure equipment and instruments which do not have a domestic similar.

### 2. Project Progress

The work commenced under the terms of an agreement signed in May 1968 by SUVALE, SUDENE, and USAID/B. Using some of the Phase I team members, the first task was the completion of the Phase I report as a basis for developing the Phase II work plan. The resulting work plan, in accordance with the agreement, placed emphasis on advisory and on-the-job transfer or teaching of skills. From the outset this approach was frustrated by two factors. Principally there was a lack of

counterpart personnel and, secondarily, there existed some confusion on the part of SUVALE as to the TAT's role.

During the initial months of project implementation, the GOB published a government-wide decree prohibiting the hiring of employees, even those to fill vacancies created by resignations. A SUVALE request for special consideration and permission to hire up to 34 employees was approved a little less than a year later. However, the salary structure was unchanged and compared unfavorably with that of private industry. The authorized staff increase was, and still is, continually subverted by a high rate of turnover. Hence, the required continuity in counterpart personnel to receive practical training and to form a strong, efficient, and dynamic institution has been lacking.

The role of the TAT is clearly stated in the agreement and undoubtedly was clearly understood by the signatories of the agreement. However, at the working level in SUVALE, the initial concept of Phase II assistance to be received seemed to anticipate the same type received in Phase I, i.e., the TAT performing a job and presenting SUVALE with a finished product. This confusion of roles did little to help establish a working rapport with an organization crippled by personnel shortages; especially when the missing personnel were most often those that would have been the TAT members' counterparts.

Given those conditions, progress was so disappointing that the Mission considered withdrawal of the TAT in 1970. However, after discussions, SUVALE, SUDENE, and USAID/B signed a revised agreement in April 1971 reflecting changes in priorities and operational approach which recognized the problems created by insufficient organizational resources. Beyond the terms of the agreement, SUVALE agreed to reinforce efforts to solve the personnel problem and improve the needed support services for the TAT. The main thrust of the revised agreement decreased emphasis on institutional development and channeled TAT work into the completion of various small sub-projects. In April 1972, the scope of the work plan was reduced to bring planning and anticipated achievement into agreement. While SUVALE had begun using subcontractors to alleviate the personnel shortage, work was progressing slowly.

Overall, the situation at the end of 1972 was not materially different than it was at the end of 1970. While the new operational approach of using contractors to perform tasks has resulted in achievements in various areas of activity, the effectiveness of the total project has been variously described as being between 30 to 50 percent. Personnel turnover and shortages continue to seriously affect the viability of SUVALE as an effective institution. Since the personnel problem is clearly at the root of most of the problems and subject

to GOB influence, this suggests one other major shortcoming, i.e., lack of sufficient priority in relation to other areas of activity as determined by the GOB. An example of a GOB project to capitalize the resources of an undeveloped area is the well publicized TRANSAMAZONICA where a comprehensive development plan appears to be going well and lacking for little. If SUVALE had a high enough priority, it is likely that management decisions at high levels would have solved the problems that presently hobble the organization.

The TAT effort to locate areas of activity in which an effective contribution could be made has been nearly as great as the effort expended to accomplish specific tasks. Work plans have been frustrated by: SUVALE personnel problems; SUVALE's piece-meal approach with plans that do not take cognizance of related side issues; lack of departmental coordination within SUVALE; and a low morale factor in SUVALE that at times has even been felt within the TAT. Specific accomplishments, well done, have given rise to some laudatory statements by some SUVALE management personnel. However, the desired strengthening of the institutional structure of SUVALE has not taken place. Even the development of technical skills has been thwarted. While all but one of 23 participants continue with SUVALE, most of the sizeable number of people given on-the-job training have left. (The TAT noted that many of these trainees are

working for the contractors. Brazil is receiving the benefit of the transferred skills but SUVALE, as the organization responsible for the development programs, is deprived of this needed strength). As the agreements to complete a specific work period expire, it is questionable as to how many of the U.S. trained participants will remain with SUVALE. Some are presently seeking an early release from their agreements.

### 3. Financial Status

The financial status of the SUVALE project as of November 30, 1972, is as follows:

	Committed	In U.S. Dollars Disbursed	Balance
PASA	\$2,340,500	\$1,795,112	\$545,388
Commodities	150,456	126,603	23,848
Participant Training	157,944	92,292	65,652
Local Currency	391,321	-0-	391,321
	\$3,040,221	2,014,012	1,026,209
	=====	=====	=====

The TAT leader informed us that SUVALE has no plans to send any more trainees to the U.S. for resident training signifying that the remaining funds allocated for participant training will not be used. The smaller than originally planned TAT and non-utilized funds for equipment acquisition, combined

with the excess participant training funds, point toward a significant amount of money which may become eligible for de-obligation.

#### 4. New Developments

The GOB Ministry of Interior, apparently recognizing the shortcomings of SUVALE, entered into a contract with the Development Resources Corporation (DRC) in November 1972. The contract's principal objective is to determine the development potential of the São Francisco Valley utilizing all the human and natural resources available in order to stimulate economic activities and to establish priorities in conformance with the integrated national program. The first report of DRC is due in early 1973 and it will make recommendations regarding the institutional framework for the development of the São Francisco Valley and may result in legislation. At present, there is no indication of the effect this will have on SUVALE.

The present TAT leader has expressed a commendable desire to perform one final task, a comprehensive study of one sub-area or sub-project to demonstrate to SUVALE a proper approach and to leave evidence of the TAT's capabilities. This would require an extension of the present expiration dates.<sup>1/</sup> We note that this type of effort appears

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1/ Currently, the final commitment date and the final disbursement date are February 28, 1973 and August 31, 1973, respectively.

to be what was expected of the TAT by SUVALE at the beginning of Phase II but Mission management and TAT leadership felt that an advisory and training input was all that the agreement provided for. Furthermore, the revision of the agreement in 1971 and of the work plans in 1971 and 1972 provided the opportunity to perform the proposed activity but it was not contemplated or planned at those times. If SUVALE declined or did not take advantage of such a proposal in 1971 or 1972, it is doubtful such an effort at this point would meet a good end. On the other hand, if this is the first such proposal by the TAT, it is suspect since it occurs at a time requiring an extension of the term of the project to use non-utilized funds.

##### 5. Conclusions

The slow progress of SUVALE illustrates the lack of GOB priority assigned to the organization and its limited involvement in a comprehensive development plan. The less than effective use made of a highly skilled and capable TAT represents a wasteful use of funds borrowed by FINEP and granted to SUVALE. The \$1 1/2 million DRC contract points to the present lack of an acceptable overall integrated work plan for the development of the São Francisco Valley. The possibility that there will be legislation resulting from the DRC report which will affect the institutional structure of the development effort, combined with the existing problem

areas cited, suggests that a major departure from the present course may be at hand.

We observe that the SUVALE project is funded by the loan to FINEP. The only present "out-of-pocket" costs to the Mission is that applicable to the coordination effort. However, the non-monetary cost of U.S. participation in an unsuccessful project over which it has had no effective control or influence is another matter. In the future, the continuance of a TAT with a LDC institution might be made contingent on the effectiveness of the host country institution in its pursuit of the established goals and its use of the TAT.

It would appear at this point that any commitment by the Mission beyond minimal compliance with its present contractual obligations may meet the same fate as previous efforts. The extension of the agreement might only perpetuate a situation that has resisted significant improvement for over four years. Admittedly, the type of task proposed by the TAT team will not require much, if any, SUVALE support or cooperation. We feel that, given the weakness of SUVALE as an institution, the product of this final effort may not be effectively utilized. The specter of legislation affecting the institutional structure and possibly rearranging the national priorities does little to encourage the continuation of the TAT presence under the present agreement.

Although the USAID/B ENRO coordinator believes that the report emanating from this proposed ultimate study may be utilized and have some value as a model for other studies, he is in full agreement with our position that any extension of the agreement might only perpetuate a bad situation that has been going on for the last four years. Under present policies, there is no indication that there has been any significant change to alleviate the situation for SUVALE so that it will be able to produce any meaningful results if the agreement is extended. Be that as it may, the direction given by the DRC reports and the subsequent legislation, if any, will determine the future value of the proposed study.

The study proposed by the TAT will require the formulation of another agreement, or a major revision of the present one. We suggest that if a firm proposal is developed by the TAT and SUVALE jointly, it be considered on the basis of a current affirmation by the Ministry of Interior that the TAT study would be in line with current GOB priorities. This would logically encompass the results of the DRC report, if available.

Recommendation No. 1

That the basis of consideration of any forthcoming SUVALE request for continuance of the Bureau of Reclamation team's assistance be USAID/B's evaluation of a current affirmation from the Ministry of Interior that the assistance would be desirable and useful in terms of current GOB priorities.

EXHIBIT A

FINEP

LOAN No. 512-L-054

FINANCIAL STATUS AS OF NOVEMBER 30, 1972

<u>SUB-LOANS</u>	<u>AMOUNT COMMITTED</u>	<u>AMOUNT DISBURSED</u>	<u>TO BE DISBURSED</u>
METEOROLOGICAL DATA	\$ 2,220,501	\$ 1,858,215	\$ 362,286
SUVALE	3,040,221	2,014,012	1,026,209
RIO-NITEROI BRIDGE STUDY	701,830	701,830	-0-
NATIONAL COMMUNICATION SURVEY	22,000	22,000	-0-
SÃO PAULO URBAN STUDY	1,744,567	1,744,567	-0-
TAQUARI-ANTAS	802,071	802.071	-0-
SÃO PAULO RAILROAD MKT.	79,703	79,703	-0-
SERPRO	98,876	82,140	16,736
BAHIA RURAL CREDIT	192,619	192,619	-0-
IPEA - UNIV. FEDERAL VIÇOSA	<u>34,610</u>	<u>34,610</u>	<u>-0-</u>
SUBTOTAL/TOTAL	\$ 8,936,998	\$ 7,531,767 *****	\$ 1,405,231 *****
UNCOMMITTED	<u>7,200<sup>1/</sup></u>		
TOTAL AMENDED AUTHORIZATION	\$ 8,944,198 *****		

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1/ Date for commitment expired December 31, 1970.

EXHIBIT B

DISTRIBUTION OF  
AUDIT REPORT  
Nº 1-512-73-91

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Brazil Audit Residency, AAG/LA	23 - 27

NOTE: All audit work papers are attached to COPY No. 23 which is on file in the Brazil Audit Residency Office, AAG/LA.

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