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AUDIT OF
USAID/COSTA RICA'S
AGRARIAN SETTLEMENT AND PRODUCTIVITY
PROJECT NO. 515-0148

AUDIT REPORT NO. 1-515-86-19
JUNE 19, 1986

AGENCY FOR INTERNATIONAL DEVELOPMENT

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June 19, 1986

MEMORANDUM FOR: USAID/Costa Rica Director, Daniel A. Chaij
FROM : RIG/A/T, *Coinage N. Gothard* Coinage N. Gothard
SUBJECT : Audit of USAID/Costa Rica's Agrarian Settlement and Productivity Project (515-0148), Report No. 1-515-86-19

This report presents the results of a limited-scope audit of USAID Costa Rica's Agrarian Settlement and Productivity Project No. 515-0148.

Background

Loan and grant agreements for the Agrarian Settlement and Productivity Project were executed by USAID Costa Rica on September 26, 1980. AID's contribution consisted of a \$9,500,000 loan and a \$500,000 grant to the Government of Costa Rica. The Government of Costa Rica was to provide the equivalent of \$3,643,000 in counterpart contributions for the project, mostly for land acquisition and in-kind support. The implementing agency was the Agrarian Development Institute, a national land reform agency. The estimated project completion date was extended from September 30, 1985 to December 31, 1986.

The purpose of the project was to improve and expand Costa Rica's national program of agricultural asset redistribution and to increase land tenure security (allowing purchase and sale of land and issuing land titles in a free market) in the northeastern part of the country. The project was to finance the acquisition of land for three new development areas -- El Indio, Neguev and Maryland -- and provide the support necessary to settle 935 farmers and their families in those areas.

In addition to financing the construction of roads, housing and community infrastructure such as community centers, schools, and administrative facilities in those areas, the project was to provide support to the settlers during the initial years when their crops were being established, including orientation, training and agricultural credit. A special credit fund managed by the Institute was to be established from the \$9,500,000 AID loan to finance agricultural sub-loans to the parcel owners. The fund was capitalized with \$2,100,000 from AID loan funds. Project-financed activities also included surveying and mapping a 160,000 hectare zone and providing 6,200 titles to farmers without legal title to their properties. Finally, the project was to strengthen the Institute's administrative and technical capabilities and its ability to plan and carry out a national land tenancy reform program.

A 15-month extension of the project from September 30, 1985 to December 31, 1986 was designed to give the Institute sufficient time to fully develop the third settlement site (Maryland), reserve sufficient funds from repayments of annual crop financing (short-term loans) to cover

disbursements for medium-term loans after the project completion date, issue a majority of the estimated 5,000 titles pending at the three locations, fully institute an automated data processing capability within the Institute, and develop the northern zone properties (primarily road work, recently added to the objectives of the project).

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a program results audit of the Costa Rica Agrarian Settlement and Productivity Project No. 515-0148. The audit was limited in scope to two aspects of the project (the agrarian credit fund and land titling) because they were the problem areas found during the survey. The audit objective was to determine whether the project had achieved, or was likely to achieve, its intended results.

To accomplish the audit objective records and documents were reviewed and discussions were held with project officials at USAID/Costa Rica and the Agrarian Development Institute. Field activities were evaluated in the three reform development areas.

This audit was made in March 1986 and covered the period from September 1980 through March 1986. It included coverage of \$7,110,043 in AID project funds disbursed as of January 31, 1986. Supporting documentation for counterpart contributions was not reviewed. The audit was made in accordance with generally accepted government audit standards.

Results of Audit

At the end of January 1986, USAID/Costa Rica had disbursed \$6,670,987 in project loan funds and \$439,056 in project grant funds for the Agrarian Settlement and Productivity Project. This was 70 percent of the total AID contribution. The project's goals of establishing three new development areas, settling families in those areas, and building roads within those settlements had been substantially accomplished. Only the third settlement site (Maryland) had not been fully developed; it still lacked the construction of permanent community centers, schools, and administrative centers.

Earlier problems impeding project progress, such as a reportedly ineffective, overly bureaucratic implementing agency and its inability to contract for procurement of commodities, particularly computer equipment, had been solved and the project was proceeding normally. The Institute had been reorganized and, since June 1984, had a new Director. Since July 1982, a grant-funded project coordinator had been competently overseeing the project. However, we determined that there were inefficiencies in the operation of the agricultural credit program and that the project goal of issuing 6,200 titles was not likely to be achieved by the revised project completion date of December 31, 1986.

Improved Credit Fund Management Needed - As of March 20, 1986 credit fund managers had approved sub-loans totaling \$1,896,577 and had released \$1,031,333 at the current exchange rate of 53.95 colones to \$US1 to

loan recipients. Those were short, medium and long-term loans to farmers who had settled on the parcels of land in the three development areas. However, administration of the credit fund was found to be inadequate. For example:

- Of 13 loan records reviewed, there were seven cases in which the loan control cards at the central office did not show current data, such as loan disbursements, contained on the corresponding cards at El Indio. (Loan funds are disbursed to the farmers in tranches as money is needed). In some cases the lag time in posting some information to central fund records was several months. Loan agreements were not on file at the central office for three loans made at El Indio, and in one case the loan agreement had not been signed by either an Institute or central office credit fund representative.
- The credit fund did not have a consolidated manual clearly stating such operating procedures as: requisites for granting loans, investigative procedures for determining a potential borrower's eligibility, terms for various types of loans, documents needed to process loans and loan collection or delinquency procedures.
- Loan recipients were not provided loan repayment schedules showing when their payments were due or the amounts due.

Much of the information that should have been included in a consolidated procedures manual was available from various memoranda and in some cases from employees' job descriptions, but it was at best fragmented and not readily available to loan managers in a consolidated form. The Director of the credit fund told us that he planned to have a procedures manual prepared and issued by April or May of 1986. Also, the USAID Project Officer told us that the Mission planned to contract a technician to assist the credit fund in improving its managerial capabilities.

The farmers we talked to at El Indio and Neguev did not view the lack of a repayment schedule as a problem. Nevertheless, borrowers should be provided this information so they can better plan the use of their financial resources. As of March 1986 the credit fund was experiencing a 25 percent delinquency rate on repayments of interest due and a 9.8 percent delinquency rate on repayments of principal due. Better financial planning and better loan collection procedures could reduce those delinquency rates. The credit fund had referred to judicial authorities certain loan recipients owing a total of \$2,951 in past due interest. However, total past due principal and interest was \$52,767 (at the current 53.95 to \$1 rate) of which \$35,841 was more than 90 days delinquent.

The problems noted in the operations of the credit fund indicated a failure to establish and adhere to sound, well documented operating procedures. We did not find cases of misuse of funds or a lack of accountability for funds. Nevertheless, unless operating procedures are explicitly stated and adhered to, there exists at least potential for error and/or mismanagement of funds and the non-availability of additional loans to other farmers.

Recommendation No. 1

We recommend that USAID/Costa Rica:

- a) obtain evidence that the credit fund under project No. 515-0148 has developed and is adhering to a technically sound, acceptable consolidated procedures manual covering its operations, including loan collection and delinquency procedures;
- b) require that loan recipients be provided loan repayment schedules;
- c) contract for the services of a capable technician to assist the Agrarian Development Institute in the management of the credit fund.

Management Comments

USAID/Costa Rica stated that a consultant had been employed to consolidate the existing credit approval procedures into a manual and to assist in the clarification of overall management procedures as part of the introduction of an ADP accounting system.

Based on the USAID's reported action, parts (a) and (c) of Recommendation No. 1 are closed upon issuance of this report. Part (b) remains open pending the USAID's planned action to resolve that issue.

Land Titling Was Behind Schedule - The August 1980 Project Paper for the Agrarian Settlement and Production Project stated that the Institute would issue 6,200 titles to beneficiaries in the project zones. As of January 31, 1986, \$554,174 out of a programmed total of \$900,000 in AID loan funds had been disbursed for this activity. As of December 31, 1985, only about 1,200 titles had been processed and issued, leaving some 5,000 titles still to be issued by the project's planned completion date, December 31, 1986.

Several reasons were given by the Institute and USAID/Costa Rica staff for the slow pace of issuing titles. For example:

- All the land in the three sites had to be surveyed, mapped and sub-divided into parcels for distribution to the beneficiaries.
- Although the project Agreement had been signed 30 months earlier, the Institute did not have titling authority until Costa Rica's land tenure law was amended in December 1984. Therefore, this aspect of the project fell two years behind schedule and the Institute was late in issuing titles.
- The Institute had been unable to expedite the titling process through the Costa Rican land survey and public registrar's offices. Those agencies had not, according to the Institute's officials, given priority to the Institute's surveying and titling requirements.

- The land survey office had developed more stringent requirements regarding the quality of plat descriptions and surveys than existed when the project paper was written in August 1980.
- The public registrar's office was not accustomed to handling the large volume of title applications that the Institute needed processed and also tended to put the Institute's work "at the bottom of the pile".

As a result of problems such as these, the titling process moved slowly and will not achieve the planned 6,200 land titles to be issued by December 31, 1986. In addition, farmers not having clear titles to their land holdings cannot obtain loans from the Institute.

USAID/Costa Rica project officials stated that the single most significant impediment to the titling process now is getting the land plats approved by the Costa Rican land survey office. Both USAID Costa Rica officials and Institute officials were aware of the problems and as far as we could determine were trying to keep the process moving forward.

Nevertheless, given the nature of the reported impediments described earlier, we believe USAID/Costa Rica could take additional steps to help ensure that the project goal of issuing 6,200 titles is eventually achieved.

Recommendation No. 2

We recommend that USAID/Costa Rica:

- a) document the causes of land titling delays and take appropriate steps to ensure that the planned number of titles will be issued prior to the termination of Project 515-0148.
- b) consult with the land survey office and the public registrar's office to explore and implement practical ways to expedite the titling process.

Management Comments

USAID/Costa Rica advised that the recommendation as formulated in our draft report would not have resolved the issue. RIG/A/T agreed and Recommendation No. 2 has been modified to allow the USAID more flexibility in resolving the land titling issue.

Please provide us with your comments on this report within the next 30 days.

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