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PD-ARP-006  
93762

**ACTION MEMORANDUM**

**TO:** W. Stacy Rhodes, Mission Director

**FROM:** Clifford H. Brown, Regional Legal Advisor *CHB*  
Margaret Kromhout, Program Development & Management *MKromhout*

**SUBJECT:** Authorization of Additional Funding for Special Peace Objective

**DATE:** January 13, 1997

**Action Needed:** Your authorization is needed to approve and obligate an additional \$15,500,000 of Economic Support Funds (ESF) to support the Special Peace Objective of USAID/G-CAP.

**Background:** After 36 years of armed conflict, the Government of Guatemala and the UNRG signed, on December 29, a final Comprehensive Peace Agreement which is the culmination of several years of negotiation and a series of more basic, preliminary accords reflecting the entire spectrum of social and political issues which were the cause of the warfare. Successful implementation of these accords is at the top of current USAID foreign policy objectives in Latin America and the Caribbean. An interagency working group was convened in Washington on November 8, 1996, attended by some 50 participants from a variety of USG agencies, including State, USAID, OMB, Commerce, Agriculture, Office of the Trade Representative, DOD and Treasury. A consensus was reached to move forward with the development of a \$10 million fast-disbursing ESF grant as part of \$25,000,000 in ESF funding to be allocated to USAID for support to the Special Peace Objective, for the overall purpose of supporting both the immediate demobilization efforts which would follow the signing and the longer term reforms called for by the peace accords. Assistant LAC Administrator Schneider and Deputy Assistant Secretary of State Hamilton recently participated in Madrid in the signing of the penultimate accord, that which sets forth ground rules for reinsertion of the URNG into civilian life in Guatemala, and announced the USG intention to provide the assistance which is discussed below. See 96 Madrid 11342. Finally, following extensive briefings of Congressional staff a CN was transmitted on December 11, 1996 which explains the proposed assistance.

Under the new ADS, project papers and project authorizations as such are no longer required. Prior to activity approval, however, the Mission Director must ensure that satisfactory planning and analysis has been undertaken and that legal requirements for obligation of funds have been met. The purpose of this memorandum is to document the planning process and to provide you with the information required to approve the new Results Package and funding level.

**Program Description:** The proposed assistance will be provided in a single agreement which will fund near-term programs related to various commitments made by the GOG in the peace accords. These include: demobilization of ex-combatants; reintegration of ex-

combatants and displaced populations into productive community life; integral human development in ex-conflictive areas and resettlement zones; increased productive capacity of returned and displaced populations; and certain fiscal and judicial reforms. The agreement will also provide non-project assistance aimed at increasing the Government of Guatemala's capacity to implement its high-impact commitments under the Peace Accords. The assistance will be complementary to those activities funded by the \$3,676,000 Peace SOAG signed in September of 1996 in support of this same Special Objective.

A. Objective:

USAID grant assistance is intended to assist Guatemala in the transition to a lasting peace and sustainable development through support for the GOG to achieve full and effective implementation of the Peace Accords. The Parties agree to work together towards this Objective, with success in achieving the overall Objective to be evidenced by compliance with the calendarization accord signed on December 29, 1996, including but not limited to increased expenditures in the health and education sectors, and more equitable distribution of financial and human resources in these sectors.

B. Cash Transfer:

Of the total of \$15,500,000, \$10,000,000 will be provided in the form of a cash transfer which the Government of Guatemala will use either for productive imports of capital goods or raw materials from the U.S., or for payment of U.S. or multilateral debt, as will be separately agreed upon between USAID and the GOG. AA/LAC concurrence for the option to use dollars for multilateral debt was obtained via Action Memorandum dated January 10, 1997 (Attachment 3) as required by the February 1996 Program Assistance Policy Paper and the 1987 ESF Cash Transfer Guidance (see 87 State 325792).

C. Local Currencies.

A key aspect of the program is the equivalent amount of host government owned local currency which will be deposited into a special account to be used only for jointly agreed upon activities directly supporting the commitments which the GOG has undertaken in the Peace Accords. At present, the parties contemplate the following categories of activities for the local currencies:

a) Demobilization and Reinsertion into Society of Excombatants: Up to \$1.7 million equivalent in local currency will be made available to FONAPAZ to provide reparation and special assistance to groups or communities who suffered human rights violations. FONAPAZ will also assist ex-combatants, and resettlement through programs related to individuals' documentation, legalization of land titles, health services, legal services and reuniting families.

b) Land Bank: Up to \$2.8 million equivalent in local currency will be made available for the Banco de Tierras to support initial start up costs (e.g., establishment of accounting system and internal financial controls, land surveys, etc) and to match capital inputs from other GOG institutions. A portion of the funds will be managed directly by USAID, through a program trust fund, and be used to contract a local CPA firm to establish the accounting system and assist in the development of internal control systems. Technical assistance may also be provided in the establishment of the survey and valuation system for land to be acquired by the Land Bank. Both of these activities are high priority and critical to the potential of the GOG to mobilize additional donor funding for the Land Bank given donor reluctance to support such as initiative based on experience in other countries. The balance of funds would be programmed for capitalizing the land purchase fund, and will be matched by an equivalent amount from the GOG with financing to be transferred from other GOG institutions to the Land Bank.

c) Basic Infrastructure: The Fund for the Peace Zones was established to provide an agile mechanism to finance the construction/-reconstruction of social infrastructure (e.g., schools, clinics) and support for income generation projects (e.g., vocational training, community banks) providing individuals with skills and/or resources needed to increase family income in the ex-conflictive regions. Up to \$3.3 million equivalent in local currency will be provided to the FONAPAZ to support principally rehabilitation and maintenance of rural access roads using labor-intensive techniques.

d) Other Activities: In final discussions with the GOG on Friday January 3, 1997, it was agreed that up to \$1.2 million equivalent in local currency will be made available to establish and facilitate operations of the entities that will be responsible for the full implementation of the Peace Accords including special committees and commissions, and the Secretariat for Peace which is soon to be established. Salaries will not be funded under this activity.

e) Program Trust Fund for Financial Systems: Up to \$500,000 equivalent in local currency will be programmed for a USAID managed program trust fund, to be used for the contracting of technical assistance on behalf of the Grantee in the establishment of sound financial management, accounting and internal control systems for the Banco de Tierras and/or other agencies involved in the implementation of activities financed with dollar or local currency resources provided under this Agreement and for such other specialized technical assistance as may be agreed upon by the Parties. A separate Program Trust Agreement will be negotiated between the parties for this fund.

f) Operating Expense Trust Fund: Recognizing the additional costs of managing the Peace Program, particularly the initial phase of monitoring demobilization activities where the only viable means of transport is helicopter and/or small plane, the total of \$500,000 in local currency will be deposited in USAID's OE trust fund to partially defray the total costs of monitoring and evaluating program activities. Annual OE costs for monitoring the Peace

Program are estimated at more than \$1.0 million; thus, this contribution represents less than 50% of the total OE cost for the first year, and only 1% of the total estimated program support to be provided (\$50 million).

D. Covenants:

The agreement is not intended as a "policy leveraging" instrument and thus will not contain specific policy-related conditions precedent to disbursement. Instead, the assistance will help the GOG comply with a host of policy and other commitments already made in the Peace Accords themselves, which commitments go well beyond those normally associated with policy-based ESF agreements of this magnitude. Seven covenants will be set forth in the agreement in this respect. The GOG will agree that:

(a) It will develop, approve and implement a comprehensive program to increase tax revenues by 50% from 1995 in real GDP terms by the year 2,000. This program will lay out specific annual revenue targets and a quarterly tax revenue monitoring plan to assess progress towards meeting fiscal targets on a real time basis and adopt remedial measures should tax revenues fall below program targets.

(b) It will develop, approve and implement a program to increase expenditures in the health and education sectors by 50% from 1995 in real GDP terms by the year 2,000. This program will include a monitoring plan to assess progress toward meeting program targets on a real time basis.

(c) It will promote the integration of a Justice Strengthening Commission that will be responsible for formulating recommendations on measures to expand access to and improve the efficiency and professionalism of the judicial system, and based on such recommendations, will provide adequate financing to enable the Public Ministry and Judicial Branch to expand judicial system services to underserved areas (e.g., Nebaj).

(d) It will comply with the timeframe set forth in the Peace Accords for the establishment of a national civilian police force, including the presentation to Congress of a new Organic Law for the national civilian police.

(e) It will develop and implement a plan, including a calendar, to eliminate barriers to investment, including such measures as finalizing Intellectual Property Rights legislation, maintaining the one-stop investment window, and undertaking the steps prerequisite to signing a Bilateral Investment Treaty with the United States.

(f) All sub-grants or sub-contracts obligating dollar funds, shall contain a condition precedent to disbursement establishing that: except for those activities qualifying for categorical exclusions, or already covered by existing approved environmental evaluations,

no funds will be disbursed prior to an environmental review, subject to approval by the grantor.

(g) Prior to the use of local currency funds, the grantee will apply appropriate environmental guidelines for the use of these funds, to be approved by the grantor, unless the activities are covered by a categorical exclusion.

E. Other Activities:

The remaining \$5.5 million of ESF assistance will be used to support the following three program areas. (A fourth area, demobilization of ex-combatants, is being supported separately through OTI, local currency generations and support to the U.N.) The detailed description of each, together with anticipated results, is set forth in the Annex A to the SOAG:

1. Human Capacity Development in Ex-conflictive and Resettlement Zones
2. Increased opportunities for Sustainable Income Generation in ex-conflictive areas and Land Titling.
3. Modernization and Strengthening of State Institutions to Achieve Implementation of the Peace Accords

F. Program Management and Support

The Government of Guatemala, through the various implementing Ministries, and USAID will be jointly responsible for monitoring and annual reviews of each component. To the degree possible, reviews will involve a wide array of development partners and customers (beneficiaries) with an interest in the outcome of activities financed by the program.

Funds budgeted under the Program Management and Support line item will be used to contract special studies and personnel required to perform these monitoring activities, to determine whether the needs of intended customers are being met, to determine whether conditions for sustainability exist, as well as to assess unexpected developments either positive or negative, affecting planned results, and to adjust activities accordingly. At present, we plan to contract for the personal services of a full time Peace Program coordinator, as well as executing a cooperative agreement or contract to permit the contracting of special studies or assessments on an as-needed basis, thus ensuring responsiveness of the program to urgent needs.

G. Criteria for Activity Selection

For activities not specifically described in the agreement, selection of activities will be decided jointly by the Parties based on the following criteria:

- Activities necessary to jumpstart the peace program and demonstrate the GOG's commitment to full implementation;
- Activities where USAID has specific, successful program experience and within USAID targeted geographic regions;
- Activities that serve to bridge the financing gap between the signing of the Accords and the coming on-line of multilateral credits or activities that leverage other donor financing;
- Activities that lay the groundwork for the longer-term transformation of the rural economy and society to a more transparent, stable democracy and more participatory, open economy.

**Initial Environmental Examination:** An Initial Environmental Examination (IEE) was signed by the Mission Director on January 9, 1997, and concurred by LAC Chief Environmental Officer in LAC-IEE-97-02 on January 10, 1997. The IEE recommends a (i) categorical exclusion for qualifying activities, (ii) positive threshold decision for those sub-activities with potential for significant environmental impacts, and (iii) SOAG covenants and conditions precedent for activities yet to be defined which may not qualify for a categorical exclusion. The necessary covenants have been included in Section 7.2 of the SOAG.

**Country and Assistance Checklists:** These checklists are included here as Attachment No. 5.

**Congressional Notification:** A CN relating to this activity was sent to the Hill on December 11, 1996. Subsequently it was discovered that the CN had been modified, following legal clearances, to omit any reference to the use of dollars. Hence, an additional written description of the use of dollars was forwarded to the relevant committees on January 6, 1997. The CN, and the additional description, are included here as Attachment No. 1.

**Authority:** Subject to the exceptions discussed below, under ADS 103.5.14, the AA/LAC has redelegated to you his authority to:

- a. develop and approve operating unit strategic plans and amendments thereto and realign, as appropriate, on-going activities

under strategic, special or support objectives;

- b. approve exceptions to the strategic planning procedures; and
- c. develop and approve management contracts and amendments thereto.

Under this same authority the AA/LAC has redelegated to you his authority to implement approved strategic, special or support objectives, including but not limited to the authority to

"a. negotiate, execute, amend and implement strategic, support and special objective grants, loans, memoranda of understanding, and other implementing and ancillary agreements and documents with public international organizations and foreign governments; and issue or approve other implementation documents in connection with the above agreement; and

"b. amend existing project, program, and other agreements and take other actions necessary to make the transition to the new ADS Managing for Results system."

However, the AA/LAC is restricted by ADS 103.5.8 from redelegating, below the Deputy AA level, the authority to approve substantive amendments to either the strategic plans or the management contracts, or to approve exceptions to the planning process. Thus, for this action to be within your authority it must be regarded as a non-substantive amendment to the existing management contract and strategic plan.

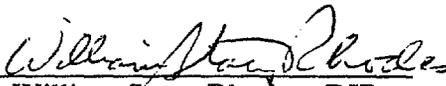
In this case, the R-4 submitted in April of 1996 described a Special Objective entitled "Support the Implementation of the Peace Accords." This is the same title used on the most recent CN for this new activity. It was proposed by the Mission in the R-4 that this Special Objective be merged with the social sector interventions into the Mission's full Strategic Objective addressing poverty. However, in the guidance cable following the R-4 review, 96 State 130516, the AA/LAC urged the Mission to continue to distinguish between the ongoing sustainable development program and the transitional set of discrete activities in support of the Peace Accords. The Special Objective described in the R-4 was originally notified to Congress at a level of \$15.2 million, with a timeframe through FY 1997; some \$8 million supplemental ESF was contemplated for FY 1997 for "post final accord" activities. While this is lower than the totals now involved, the same guidance cable stated that "a significantly increased proportion of the program budget must be available to meet the requirements of the resettlement and socio-economic accords" and that "there was a compelling case for a significant U.S. commitment to support implementation of the Peace Accords in Guatemala."

The AA/LAC and a Deputy AA/LAC have been directly and personally involved in the planning for this additional funding. The "official guidance" which constitutes the management contract includes the description of this activity in our cable seeking AA/LAC concurrence to use the dollars for payment of multilateral debt and an exception to the strategic planning process as per ADS 201.5.5D, as well as the other documents and

Action Memorandum  
Special Peace Objective (520-0426)  
Page No. 8

exchanges of correspondence, including but not limited to the CN which was substantially modified in Washington. For these reasons, it is reasonable to conclude that no substantive amendment to the strategic plan or management contract is being made. The RLA concludes that you have authority to approve this action under ADS 103.5.14b. An e-mail from LAC/SPM (Paul Thorn) dated January 7 concurs in this.

**Recommendation:** That you sign below indicating authorization and approval of the attached Strategic Objective Agreement to obligate \$15,500,000 under the existing Special Objective to Implement the Peace Accords.

  
William Stacy Rhodes, DIR

Date Jan. 13, 1997

List of Attachments:

1. Congressional Notification
2. Explanation of Dollar Uses
3. AA/LAC approval to pay multilateral debt
4. Notification that funds distributed
5. Country & Assistance checklists
6. IEE

Clearances:

TPierce, ENR	In draft(IEE)	Date: 1/13/97
TWalsh, FM	<i>in draft</i>	Date: <u>1/13/97</u>
LButler, DDIR	<i>WBC for</i>	Date: <u>1/13/97</u>

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ADM AID

E.O. 12958: N/A  
TAGS:  
SUBJECT: CONGRESSIONAL NOTIFICATION ALERT

THE FOLLOWING CONGRESSIONAL NOTIFICATIONS EXPIRED WITHOUT  
OBJECTION ON DECEMBER 25, 1996.

GUATEMALA:

- 520-0000 PROGRAM DEVELOPMENT AND SUPPORT - DOLS 100,000  
DAF AND DOLS 300,000 ESF
  - 520-0395 MAYA BIOSPHERE PROJECT - DOLS 650,000 DAF
  - 520-0426 SUPPORT FOR IMPLEMENTING THE PEACE ACCORDS -  
DOLS 25,000,000 ESF
- ROCAP:
- 596-0167 LOCAL GOVERNMENT REGIONAL OUTREACH STRATEGY -  
DOLS 175,000 DAF

OBLIGATIONS MAY BE INCURRED AS SOON AS FUNDS BECOME  
AVAILABLE.  
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Attachment No. 1  
Page 2 of 5

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

DATE: December 11, 1996

We wish to inform you of proposed actions in the Agency's programs in Fiscal Year 1997.

Angola TN - Rehabilitating Communities in Post War Angola

Russia TN - Environmental Policy and Technology

Jamaica TNs:

- Special Development Activities
- Improved Markets, Export Growth Opportunities

LAC Regional TN - Program Development and Support

ROCAP TN - Local Government Regional Outreach Strategy

Guatemala TNs:

- Program Development and Support
- Maya Biosphere Project

Guatemala - Support for Implementing the Peace Accords

Bangladesh - Employment and Income Generating Program for Poor Households in Bangladesh

The attached notification was sent to the Hill on December 11, 1996. Obligation may be incurred on December 26, 1996.

  
 Barbara Bennett  
 Bureau for Legislative and Public Affairs

**AGENCY FOR INTERNATIONAL DEVELOPMENT  
ADVICE OF PROGRAM CHANGE**

DEC 11 1996

<b>COUNTRY</b>	Guatemala
<b>PROJECT TITLE</b>	Support for Implementing the Peace Accords
<b>PROJECT NUMBER</b>	520-0426
<b>FY 1996 CP REFERENCE</b>	None
<b>APPROPRIATION CATEGORY</b>	Economic Support Fund (ESF)
<b>LIFE-OF- PROJECT FUNDING</b>	\$50,000,000 (ESF)
<b>INTENDED FY 1997 OBLIGATION</b>	\$25,000,000 (ESF)

This is to advise that USAID intends to obligate up to \$25,000,000 ESF in FY 1997 to support the implementation of the Guatemala Peace Accords. A notification is required because this is a new project and Guatemala is a Special Notification Country under Section 520 of P.L. 104-208 (for ESF only). The activities will be managed by USAID/Guatemala in the Bureau for Latin America and the Caribbean.

The proposed activities constitute a multi-year package to fund near-term programs related to demobilization of ex-combatants and integration of ex-combatants and displaced populations into productive community life, decentralization of health and education services in ex-conflictive areas and resettlement zones, increased productive capacity of returned and displaced populations, fiscal and judicial reforms, and non-project assistance aimed at increasing the Government of Guatemala's capacity to implement its high-impact commitments under the Peace Accords.

**ACTIVITY DATA SHEET**

BEST AVAILABLE COPY

CP 81-05 (4-85)

**PROGRAM: Guatemala**

<b>TITLE</b> Support for Implementing the Peace Accords		<b>FUNDING SOURCE</b> ESF	<b>PROPOSED OBLIGATION (in thousands of dollars)</b>		
			FY 1997 25,000 (ESF)	<b>LIFE OF PROJECT (Auth.)</b> 50,000	
<b>NUMBER</b> GRANT <input checked="" type="checkbox"/> LOAN <input type="checkbox"/>	<b>NEW <input checked="" type="checkbox"/></b> CONTINUING <input type="checkbox"/>	<b>PRIOR REFERENCE</b>  None	<b>INITIAL OBLIGATION</b> FY 1997	<b>ESTIMATED FINAL OBLIGATION</b> FY 2000	<b>ESTIMATED COMPLETION DATE OF PROJECT</b> FY 2000

**Purpose:** To support Guatemala's transition from 36 years of armed conflict to lasting peace and sustainable development through implementation of the commitments in the Peace Accords.

**Background:** The Government of Guatemala (GOG) and the URNG guerilla movement have negotiated six substantive accords covering 1) human rights; 2) resettlement of uprooted populations; 3) historical clarification (truth commission); 4) rights of the indigenous populations; 5) socio-economic and agrarian issues; and 6) civil authority and the role of the military. They have announced the signing of a Final Peace Accord on December 29, 1996. The hundreds of commitments made under the accords will be implemented by the GOG, international organizations, NGOs, and grassroots organizations representing those affected by the conflict. The proposed program builds on USAID's earlier support to the already-signed accords, originally funded under the Guatemala Peace Fund.

**Description:** USAID has developed a multi-year assistance package to support the Peace Accords and build public confidence in the GOG's ability to deliver on the commitments made in the Accords. Immediate needs include demobilization and integration of ex-combatants and displaced persons into productive life; economic reactivation of ex-conflictive zones (through education and training as well as improved access to credit, technical assistance and improved infrastructure), and modernization of the state, designed to facilitate GOG implementation of high-impact peace accord commitments. The package will include a \$10 million cash transfer to the GOG with the accompanying local currency generations to be dedicated to high priority projects (e.g., water and sanitation systems, school construction, land purchases) in the ex-conflictive zones to be funded through new and/or existing mechanisms created by the Peace Accords, such as the Peace Fund, the Land Fund, and the Indigenous Fund. The assistance package will also include specific programs to increase credit for productive activities; support labor-intensive rehabilitation and construction of farm-to-market roads, and other rural community projects in ex-conflictive zones; vocational training for ex-combatants, refugees and displaced populations; training for education promoters

and indigenous leaders; implementation of bilingual multi-cultural education; expansion of income generative activities in ex-conflictive areas; and support for justice, tax, customs, and legislative reforms required by the Accords. Finally, \$3 million will be provided to UN agencies charged with carrying out specific Peace Accord functions. (e.g., the UN Human Rights Mission in Guatemala (MINUGUA) for its work in reforming justice sector institutions, the Historical Clarification Commission, and demobilization and resettlement activities).

**Sustainability:** The Accords call for increased commitment on the part of the GOG in the areas of budget support to the social sectors and by the private sector (in terms of a commitment to increasing tax revenue as well as major structural reforms of government institutions, particularly in the justice sector).

**Host Country and Other Donors:** The GOG estimates the cost of financing Accord commitments to over \$2 billion over 4 to 5 years and recognizes that a significant portion of the financing must be generated internally. A Consultative Group meeting is scheduled for January 21, 1997. The IDB and World Bank will be the major donors. The European Union will also be a significant donor. Due to its ability to quickly provide grant assistance, USAID's minority share of the overall donor contribution will be particularly important to securing early, tangible results and bridge the period until resources from multi-lateral donors are available.

**Results:** The key results to which the project will contribute are the demobilization and resettlement of 2,700 ex-combatants who will receive vocational training, scholarships, credits, etc.; improved education and vocational training throughout the ex-conflictive and resettlement zones; prompt access to factors of production (e.g., credit) assured in these zones; and improved performance by the GOG through modernization and strengthening of key institutions, including absolute increases in social sector spending as a percentage of GDP; and police and justice system reform.

U.S. FINANCING (In thousands of dollars)				PRINCIPAL CONTRACTORS OR AGENCIES
	Obligations	Expenditures	Unliquidated	
Through September 30, 1995	0	0	0	Secretariat for Peace (SEPAZ) Ministries of Finance, Health and Education Judiciary, Congress MINUGUA, UNDP Local and International NGOs Municipalities and Community Organizations Emergency Funds (e.g. FONAPAZ, FONDIGUA, Fondo de las Tierras
Estimated Fiscal Year 1996	0	0		
Estimated Through September 30, FY 1996	0	0	0	
		<b>Future Year Obligations</b>	<b>Estimated Total Cost</b>	
Proposed Fiscal Year 1997	25,000	25,000	50,000	

DEC 11 1996

AGENCY FOR INTERNATIONAL DEVELOPMENT  
 Technical Notification  
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Project Title & Number	FY 97 CP & Prior Reference	Country/ Program	Appropriation Account	FY 97 CP Amount Or Latest CN/TN Amount	Amount Now Required	Amount of Increase	Reason for Change
PROGRAM DEVELOPMENT AND SUPPORT 520-0000	NONE	GUATEMALA	DAF ESY	0 0	100 300	100 300	INCREASE IN FY FUNDING.
Maya BIOSHERE PROJECT 520-0395	NONE	GUATEMALA	DAF	0	650	650	INCREASE IN FY FUNDING.

To: Michael Alban@PDM@GUATEMALA, Margaret Kromhout@PDM@GUATEMALA  
Cc:  
Bcc:  
From: Clifford Brown@RLA@GUATEMALA  
Subject: Fwd: re: fwd:  
Date: Monday, January 13, 1997 9:17:43 GUA  
Attach: CASHUSES.GUA  
Certify: N  
Forwarded by:

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Comments:  
we can relax about the notice. Mike, this is the attachment for our memo  
also.

----- Original Message -----  
To: Steve Allen@GC@AIDW  
Cc: Clifford Brown@RLA@GUATEMALA  
From: Gladys Rodriguez@LPA@AIDW  
Date: Monday, January 13, 1997 at 10:14:07 am EST  
Attached: CASHUSES.GUA

Yes, this is to confirm the Guatemala information went to the Hill on January 6,  
1997. I've attached the document for your record.

## GUATEMALA - Use of Cash Transfer Dollars

**QUESTION:** What will the \$10 million in cash transfer assistance be used for?

**ANSWER: --** In the agreement to be signed with Government of Guatemala (GOG), the following approved uses of the dollars will be included:

- payment of GOG bilateral or multilateral debt, including debt to international financial institutions;
  - purchase of critical imports (e.g. oil, capital goods of U.S. source and origin).
- Both the cash transfer and the local currency generated by this assistance will each be segregated in separate accounts and not commingled with other GOG funds.



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

JAN 10 1997

**ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, LAC**

*Janice M. Weber*  
**FROM:** Janice M. Weber, Director, LAC/SPM

**ACTION:** Your approval is needed to allow USAID/Guatemala the option to use cash transfer dollars for repayment of multilateral development bank debt by the Government of Guatemala (GOG).

**BACKGROUND:** The 36-year civil war in Guatemala came to a formal end with the signing of a Final Peace Accord on December 29, 1996. USAID/Guatemala is finalizing a draft ESF agreement for support to the GOG for implementing the peace accords, including the urgent demobilization requirements. A Congressional Notification for this ESF support was transmitted on December 11, 1996, and expired without objection on December 26, 1996. Current guidance (Ref A) requires a Regional Bureau Assistant Administrator's approval for the use of dollars for payment of multilateral debt, which will be a permissible use under the agreement.

**DISCUSSION:** The LAC Bureau is fully familiar with the overall rationale for this high priority ESF program, which is part of the Mission's Special Objective, "Support the Implementation of the Peace Accords." In addition to supporting U.N. activities and high priority USAID activities of the peace accords, the proposed program includes a \$10 million peace program (cash transfer) grant which will allow the GOG to set aside an equivalent amount of local currencies to accomplish high priority commitments included in the peace accords. The purpose of this special one-time cash transfer is to demonstrate strong U.S. political support for the GOG during this critical period and to provide relief in terms of liquidity which will better enable the government to fulfill its most urgent commitments.

Agency guidance (Ref A) indicates that first preference for the use of ESF cash transfer dollars is for payment of U.S. imports. However, the guidance also indicates that debt service payments may be approved in situations in which such debt is a significant barrier to growth and development, where institutional arrangements may preclude the traceable use of cash transfer dollars for other purposes, or where such servicing will have a significant effect on leveraging additional flows of development resources. Ref A also indicates that U.S. debt will have priority over multilateral debt. While the agreement will allow

Attachment No. 3

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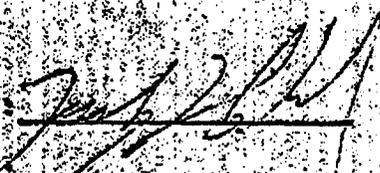
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the GOG the option of using the dollars for U.S. imports and payment of debt to the U.S., the agreement also will permit the GOG to use the dollars for repayment of multilateral debt for the following reasons:

Guatemala has a completely free and open foreign exchange regime. Setting up a process to specifically trace dollars from the ESF special account, if used for import transactions, means creating additional institutional arrangements in order to track those transactions and is essentially a step backwards from the open foreign exchange regime which the U.S. favors. Since the dollars are fungible, the same economic impact is obtained regardless of specific use. U.S. debt payments may not fall due as quickly as payments due to multilateral development bank debt; therefore, payment of multilateral debt instead of debt to the U.S. may be more beneficial to the government and result in quicker generations of local currencies for its high priority needs.

More importantly, payment of multilateral development bank debt in fact will assist in leveraging other funding from these creditors. It is also easy to track since disbursement can be made directly from U.S. Treasury to the creditor and still satisfy the separate account requirement of U.S. law. The separate account, in such an instance, is with the U.S. government rather than a private bank.

**RECOMMENDATION:** That you approve the option recommended by USAID/Guatemala to allow the use of cash transfer dollars for repayment of multilateral development bank debt by the Government of Guatemala with local currency generated and jointly programmed for high-impact activities in support of peace accord implementation.

Approved: 

Disapproved: \_\_\_\_\_

Date: 1/10/97

Ref A. Program Assistance Policy Paper, February 1996

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To: Margaret Kromhout@LAC.DPP@COV.EMILIA  
Cc: Robert Meehan@LAC.DPP  
From: Cheryl Stradford@LAC.DPP@AIDW  
Certify: Y  
Subject: ...no subject...  
Date: Friday, January 10, 1997 at 4:05:51 pm EST  
Attached:None

Attachment No. 4  
Page 1 of 1

The mission is advised that the following funds has been entered into the NMS

Economic Support Funds  
ES 97/98  
\$15,500,000

Have A Nice Week End

## II. ASSISTANCE CHECKLIST

Listed below are criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to: (A) both DA and ESF assistance; (B) DA only; or (C) ESF only.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

### A. DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND

#### 1. Congressional Notification

- a. **General Requirement** (FY 1997 Appropriations Act Sec. 515; FAA Sec. 634A): If the obligation has not previously justified to Congress, or is for an amount in excess of the amount previously justified to Congress, has a Congressional Notification been made? Yes
- b. **Special Notification Requirement** (FY 1997 Appropriations Act, "Burma" and "NIS" Title II headings and Sec. 520): For obligations for NIS countries, Burma, Colombia, Guatemala (except development assistance), Dominican Republic, Haiti, Liberia, has a Congressional Notification been submitted, regardless of any justification in the Congressional Presentation? Not Applicable
- c. **Notice of Account Transfer** (FY 1997 Appropriations Act Sec. 509): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees? Not applicable
- d. **Cash Transfers and Nonproject Sector Assistance** (FY 1997 Appropriations Act Sec. 531(b)(3)): If funds are to be made available in the form of cash transfer or Yes. The original notice on December 11, 1996 discussed use of funds in terms of generation of local currencies. Subsequently, a written

nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

**2. Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

**3. Legislative Action** (FAA Sec. 611(a)(2)): If the obligation is in excess of \$500,000 and requires legislative action within the recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

**4. Water Resources** (FAA Sec. 611(b)): If the assistance is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)?

**5. Cash Transfer/Nonproject Sector Assistance Requirements** (FY 1997 Appropriations Act Sec. 531). If assistance is in the form of a cash transfer or nonproject sector assistance:

a. **Separate Account:** Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

clarification of the use dollars was also provided to the committees. Dollars will be used either for U.S. imports or payment of U.S. or multilateral financial institution debt.

Yes. The cost is \$15.5 million dollars.

The final Peace Accords commit the Government to an aggressive legislative reform program.

N/A

Yes.

**b. Local Currencies:** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account? Yes

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? Yes

(3) Has A.I.D. taken all necessary steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? Yes

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? Yes

**6. Capital Assistance (FAA Sec. 611(e)):** If capital assistance is proposed (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator N/A

taken into consideration the country's capability to maintain and utilize the assistance effectively?

## 7. Local Currencies

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The Agreement requires \$500,000 equivalent of local currency to be deposited into the OE trust account. Another \$500,000 of local currency will be deposited to a program trust fund, to be used for PD&S type activities related to financial systems of recipients of local currency.

### b. US-Owned Foreign Currencies

(1) **Use of Currencies** (FAA Secs. 612(b), 636(h)): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

Yes. See 7.a above.

(2) **Release of Currencies** (FAA Sec. 612(d)): Does the U.S. own non-PL 480 excess foreign currency of the country and, if so, has the agency endeavored to obtain agreement for its release in an amount equivalent to the dollar amount of the assistance?

None owned.

8. **Trade Restrictions - Surplus Commodities** (FY 1997 Appropriations Act Sec. 513(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

9. **Environmental Considerations** (FAA Sec. 117; USAID Regulation 16, 22 CFR Part 216):

Yes

Have the environmental procedures of USAID Regulation 16 been met?

**10. PVO Assistance**

a. **Auditing** (FY 1997 Appropriations Act Sec. 550): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of USAID?

Not yet applicable. Any such PVO will be so required at the time assistance is provided directly to it.

N/A

b. **Funding Sources** (FY 1997 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? If not, has the requirement been waived?

N/A

**11. Agreement Documentation** (Case-Zablocki Act, 1 U.S.C. Sec. 112b, 22 C.F.R. Part 181): For any bilateral agreement over \$25 million, has the date of signing and the amount involved been cabled to State L/T immediately upon signing and has the full text of the agreement been pouched to State/L within 20 days of signing?

**12. Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk

Yes.

Probably

purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes

13. **Abortions** (FAA Sec. 104(f); FY 1997 Appropriations Act, Title II, under heading "Development Assistance" and Sec. 518):

Nope

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? (Note that the term "motivate" does not include the provision, consistent with local law, of information or counseling about all pregnancy options.)

Nope

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

Nope

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only.)

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only.) No

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? No

**14. Procurement**

a. **Source, Origin and Nationality** (FAA Sec. 604(a): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section? Yes

b. **Marine Insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? N/A

c. **Insurance** (FY 1997 Appropriations Act Sec. 528A): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. insurance companies have a fair opportunity to bid for insurance when such insurance is necessary or appropriate? Yes

**d. Non-U.S. Agricultural Procurement**



(FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

**e. Construction or Engineering Services**  
(FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

N/A

**f. Cargo Preference Shipping** (FAA Sec. 603): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

N/A

**g. Technical Assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes

Yes

h. **U.S. Air Carriers** (Fly America Act, 49 U.S.C. Sec. 1517): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes

i. **Consulting Services** (FY 1997 Appropriations Act Sec. 549): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? Yes

j. **Notice Requirement** (FY 1997 Appropriations Act Sec. 561): Will agreements or contracts contain notice consistent with FAA section 604(a) and with the sense of Congress that to the greatest extent practicable equipment and products purchased with appropriated funds should be American-made? Yes

**15. Construction**

a. **Capital Assistance** (FAA Sec. 601(d)): If capital (e.g., construction) assistance, will U.S. engineering and professional services be used? Yes, unless local procurement is authorized

b. **Large Projects - Congressional Approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? N/A

16. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

17. **Communist Assistance** (FAA Sec. 620(h).  
Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

Yes

18. **Narcotics**

a. **Cash Reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

No. Not applicable.

b. **Assistance to Narcotics Traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

Yes

19. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

Yes

20. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

Yes

21. **CIA Activities** (FAA Sec. 662): Will

assistance preclude use of financing for CIA activities? Yes

22. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

23. **Export of Nuclear Resources** (FY 1995 Appropriations Act Sec. 506): Will assistance preclude use of financing to finance, except for purposes of nuclear safety, the export of nuclear equipment, fuel, or technology? No

24. **Publicity, Propaganda and Lobbying** (FY 1997 Appropriations Act Sec. 546; Anti-Lobbying Act, 18 U.S.C. § 1913; Sec. 109(1) of the Foreign Relations Authorization Act, Fiscal Years 1988 and 1989, P.L. 100-204): Will assistance be used to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? No

25. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement? No

26. **Impact on U.S. Jobs** (FY 1997 Appropriations Act, Sec. 538):

a. Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business? No

b. Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.?

No

c. Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture?

No

**B. DEVELOPMENT ASSISTANCE ONLY**

[QUESTIONS APPLICABLE ONLY TO DA ARE OMITTED]

**C. ECONOMIC SUPPORT FUND ONLY**

1. **Economic and Political Stability** (FAA Sec. 531(a)): Does the design and planning documentation demonstrate that the assistance will promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

Yes

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

Yes

No

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1997, this

N/A

provision is superseded by the separate account requirements of FY 1997 Appropriations Act Sec. 532(a), see Sec. 532(a)(5).)

**4. Generation and Use of Local Currencies**

(FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1997, this provision is superseded by the separate account requirements of FY 1997 Appropriations Act Sec. 532(a), see Sec. 532(a)(5).)

Yes

Yes

**5. Capital Activities** (Sec. 306, Jobs Through Exports Act of 1992, P.L. 102-549, 22 U.S.C. 2241a): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided.

N/A

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U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

LAC-IEE-97-02

**ENVIRONMENTAL THRESHOLD DECISION**

Project Location : Guatemala

Project Title : Support for Implementation of the Peace Accords (Special Objective Grant Agreement)

Project Number : 520-0426

Funding : \$50 million

Life of Project : FY 97-FY 00

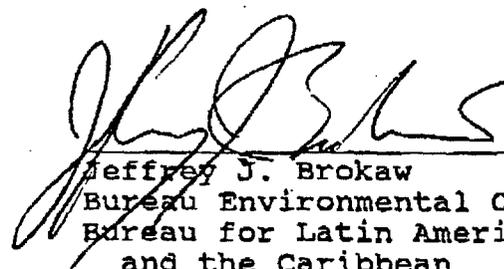
IEE Prepared by : Tracey Parker, REA  
Thomas Pierce, MEO

Recommended Threshold Decision : Positive Determination/  
Categorical Exclusion

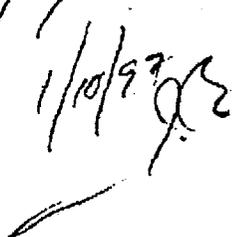
Bureau Threshold Decision : Concur with Recommendation (see comments below)

**Comments**

For activities that are not categorically excluded, and for activities that will be implemented using local currency funds, conditions precedent, as stated in the IEE, shall be placed in the grant agreement. Due to the many components involved, and the complicated nature of this program, the Bureau Environmental Officer (BEO) will assist USAID/Guatemala in identifying the activities that are categorically excluded; the activities which will require an Environmental Assessment (positive determination); and the activities that will need to follow environmental guidelines to ensure significant impacts do not occur. It is the responsibility of USAID/Guatemala to ensure that the Grantee is aware of additional environmental review requirements as determined by the BEO in accordance with 22 CFR 216.

 Date 2/10/97

Jeffrey J. Brokaw  
Bureau Environmental Officer  
Bureau for Latin America  
and the Caribbean



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ENVIRONMENTAL THRESHOLD  
DECISION (cont'd)

- Copy to : William Stacy Rhodes, Director  
USAID/G-CAP
- Copy to : Thomas Pierce, MEO  
USAID/Guatemala
- Copy to : Tracey Parker, REA/CA  
USAID/Guatemala
- Copy to : Margaret Kromhout, PDM  
USAID/Guatemala
- Copy to : Paul Thorn, LAC/SPM-CAC
- Copy to : Cecily Mango, LAC/CEN
- Copy to : IEE File

**INITIAL ENVIRONMENTAL EXAMINATION**

**COUNTRY:** Guatemala

**TITLE:** Support for Implementation of the Peace Accords (Special Objective Grant Agreement)

**NUMBER:** USAID 520-0426

**FUNDING SOURCE:** Economic Support Funds

**FUNDING:** \$50,000,000

**DURATION:** FY 1997 - FY 2000

**IEE PREPARED BY:**  Tracey Parker, USAID/G-CAP Regional Environmental Advisor, and Thomas H. Pierce, USAID/G-CAP Mission Environmental Officer

**RECOMMENDED THRESHOLD DECISION:** Positive Determinations  
Categorical Exclusions  
SOAG Covenant and Conditions Precedent

**MISSION THRESHOLD DECISION:** Concur with Recommendation

**DATE PREPARED:** 9 January 1996

**RECOMMENDATION FOR THRESHOLD DECISION**

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new activities, or for new components added during revision or amendments that were not previously subject to environmental review. The attached package presents a detailed analysis of the environmental status of each of the proposed sub-activities under the Special Objective Grant Agreement with corresponding environmental review recommendations. Based on the attached analyses, USAID/Guatemala CAP recommends a i) Categorical Exclusion for qualifying activities, ii) Positive Threshold Decision for those sub-activities with potential for significant environmental impacts, iii) a SOAG covenant and conditions precedent for activities yet to be defined which may not qualify for a categorical exclusion. *and*

The following two special covenants are included in Section 7.2 of the SOAG:

[The Grantee hereby covenants that] (f) all sub-grants or sub-contracts obligating dollar grant funds, shall contain a condition precedent to disbursement establishing that:

**IEE-Guatemala-Support for Implementation of the Peace Accords 2**

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except for those activities qualifying for categorical exclusions, or already covered by existing approved Environmental Evaluations, no funds will be disbursed prior to an environmental review, subject to approval by the Grantor.

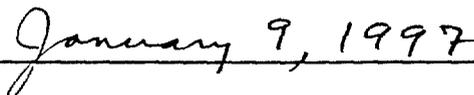
(g) Prior to the use of local currency funds, the Grantee will apply appropriate environmental guidelines for the use of these funds, to be approved by the Grantor, unless the activities are covered by a categorical exclusion.

Concurrence:



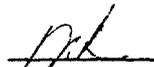
William Stacy Rhodes  
USAID/G-CAP Director

Date:



Clearances:

M. Kromhout, PDM



Letitia Butler, DDIR

In draft

**IEE-Guatemala-Support for Implementation of the Peace Accords 3**

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**OVERVIEW**

The signing of the final Comprehensive Peace Accord on December 29, 1996, marked the end of the last armed conflict in the Central American region and, for Guatemala, the beginning of a potentially difficult period of transition, the building of a more transparent, stable democracy and a more equitable, participatory economy. The United States is prepared to support the Government and people of Guatemala to fulfill the commitments made through the lengthy negotiation process. In the immediate term, the GOG faces a continuing fiscal crisis in its financing of critical, urgent needs, such as the costs associated with demobilization and reintegration.

Since 1995, the United States Government, acting through USAID, has provided a total of \$9.3 million in support of the Guatemalan peace process, with funding targeted to assist the GOG in meeting the commitments of the Global Accord on Human Rights, the Accord on the Resettlement of Uprooted Peoples, the Accord on the Indigenous Populations, and the Socioeconomic and Agrarian Accord.

An analysis of the numerous commitments made during the Peace negotiations in the series of substantive accords has grouped these commitments into four strategic areas:

- Demobilization and Incorporation into Society of Ex-combatants and their Families;
- Integral Human Development, which focuses on the cultural identity of the indigenous peoples as well as measures to increase the quality and coverage of basic social services;
- Sustainable Productive Development, which includes the expansion of economic opportunities, improvements in labor standards and addressing the issue of land distribution; and
- Strengthening and Modernizing the State, which encompasses reforms necessary to strengthen and modernize the executive, judicial and legislative branches of government, including fiscal reform.

Fifty million dollars in Grant assistance will be provided by the United States in support of the Implementation of the Peace Accords through this and other agreements. The first obligation covered by this SOAG includes a \$10 million cash transfer, and \$5.5 million in projectized ESF.

In order to consider the environmental implications of a Special Objective with so many elements, each of the sub-activities is considered below, and a determination is made on potential environmental impacts. Each activity falls under one of the four

**IEE-Guatemala-Support for Implementation of the Peace Accords 4**

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categories below:

1. Activities eligible for Categorical Exclusions: Program Trust Fund for Financial Systems; Operating Expense Trust Fund; Human Capacity Development in Ex-conflictive and Resettlement Zones; Justice Sector Reform; Tax and Customs Reform; Strengthening and Modernization of the Legislative Assembly; Program Management and Support, certain contributions to United Nations Agencies, and activities which involve the application of design criteria or standards developed and approved by A.I.D.
2. Activities that are an expansion of existing Programs which have already undergone Initial Environmental Examinations and Environmental Assessments and for which no additional action is required, including activities under the Communities in Transition Project, the Maya Biosphere Project, and the Farm to Market Access Project.
3. Activities which come under the emergency provisions of CFR 216.2(b): the assistance being provided by USAID/W Office of Transition Initiatives (OTI).
4. Yet to be identified activities, or proposed activities, but without sufficient information. These will require separate environmental reviews as noted under the SOAG; an environmental review will be conducted on these activities as soon as details become available.

**IEE-Guatemala-Support for Implementation of the Peace Accords 5**

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**1. Demobilization and Reintegration of Ex-combatants and Displaced Persons****Description**

To assist the GOG to meet near term commitments on demobilization and reinsertion of ex-combatants and displaced persons, the Agreement provides for a \$10 million cash transfer support grant to the GOG for debt repayment, thereby releasing an equivalent amount of local currency which will be programmed with SEPAZ--the Technical Secretariat for Peace. In addition, given the United Nations' coordinating role in this area, United States grant funding will be provided directly to relevant United Nations mechanisms for activities such as the Trust Fund for Uprooted Populations, the Historical Clarification Commission, the Special Commission on Incorporation, or other UN mechanisms that may be developed to address the needs of those affected by the conflict.

These activities, and others which may yet be agreed to by the parties, will complement additional assistance being provided by USAID/W Office of Transition Initiatives (OTI). OTI has made \$3 million initially available to fund the assessment, design and execution of much of the infrastructure and program support for reentering ex-guerrillas and URNG members who will concentrate at eight sites during a 60 day period. OTI resources are also expected to partially fund incorporation activities for the ex-guerrillas after encampment, such as vocational or university training, basic skills development, agricultural packages, etc.

**Local Currencies** The local currencies generated from this cash transfer will be programmed jointly by the parties through subsequent Implementation Letters. At present, the parties contemplate the following categories of activity:

a) Resettlement, Re-incorporation into Society of Ex-combatants, and National Reconciliation: Local currency funds will be made available to the Fund for Peace (FONOPAZ) to provide reparation and special assistance to groups or communities who suffered human rights violations. FONOPAZ will also assist ex-combatants, through programs related to individuals' documentation, legalization of land titles, health services, legal services and reuniting family.

b) Basic Infrastructure: Up to \$3.3 million equivalent in local currency will be provided to FONOPAZ to support activities, principally the rehabilitation and maintenance of rural access roads using labor intensive mechanisms.

c) Land Fund (Fondo de Tierras): The Land Fund will support initial start up costs (e.g., establishment of accounting system and internal financial controls, land surveys, etc) and to match GOG capital inputs. Technical

**IEE-Guatemala-Support for Implementation of the Peace Accords 6**

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assistance may also be provided in the establishment of the survey and valuation system for land to be acquired by the Land Fund. The balance of funds would be programmed for capitalizing the Land Fund, and will be matched by an equivalent to be transferred from other GOG institutions to the Land Fund.

d) Program Trust Fund for Financial Systems: Up to \$500,000 will be programmed for a USAID managed program trust fund, to be used for the contracting of technical assistance.

e) Operating Expense Trust Fund: Funds will be deposited in USAID's OE trust fund to partially defray the total costs of monitoring and evaluating program activities.

**Discussion and Recommendations:**

It is recommended that the Special Objective Grant Agreement shall contain the covenant that prior to the use of local currencies funds, the GOG will establish appropriate environmental guidelines for the use of the funds, to be approved by the Bureau Environmental Officer in Washington, unless the activities are covered by a categorical exclusion.

Funds given to the United Nations Agencies, would qualify for a categorical exclusion under 216.2(c)(2)(iv) if the following conditions were met: *Projects in which A.I.D. is a minor donor to a multidonor project and there is no potential significant effect upon the environment of the United States, areas outside any nation's jurisdiction or endangered or threatened species or their critical habitat.*

Activities under the assistance being provided by USAID/W Office of Transition Initiatives (OTI) are Exempted from environmental procedures under the emergency provisions of CFR 216.2(b).

a) Resettlement, Re-incorporation into Society of Ex-combatants, and national reconciliation  
**Recommendation: Categorical Exclusion.**

b) Basic Infrastructure **Recommendation: Positive Determination.** At this point there is inadequate information on proposed rehabilitation and maintenance to determine if existing environmental guidelines will cover these activities. Further environmental review of the activities will be made as they become better defined. In the case of rural roads, the document *Caminos Rurales con Impactos Minimos* (Keller, Bauer and Aldana 1995) should be used as a guide.

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c) Land Fund (Fondo de Tierras) **Recommendation: Positive Determination** As the draft legislation now stands for the Land Fund, there are no mechanisms for protection of primary forests, endangered species, protected areas or fragile environments.

Technical assistance, in addition to that for survey and valuation systems for the land to be acquired, should include an environmental assessment of the suitability of the land for farming, forest management and conservation. Guarantees must be in place to insure that land acquired will not contribute to removal of primary tropical forests, nor significantly reduce biological diversity, and prohibit purchase of land within designated parks or protected areas.

e) Program Trust Fund for Financial Systems:  
**Recommendation: Categorical Exclusion (Technical Assistance)**

f) Operating Expense Trust Fund:  
**Recommendation: Categorical Exclusion.**

**Recommendation: In monitoring and evaluating program activities, adequate funds should be programmed for environmental monitoring, evaluation, and mitigation.**

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**2. Human Capacity Development in Ex-conflictive and Resettlement Zones****Description**

USAID will provide support through this Agreement for (a) expanded access of indigenous peoples to university education, (b) accreditation/certification of bilingual education promoters, (c) bilingual, multi-cultural education programs, and (d) vocational education.

**Recommendation: Categorical Exclusion**

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**3. Effective Access to Factors of Sustainable Production in Ex-conflictive Areas****Description**

This program area includes activities such as labor policy, rural development, land access, and export promotion. Grant funds will be used to finance the following activities:

(a) Generation of sustainable income opportunities: USAID has provided support for several NGO programs working directly with rural communities to improve on-farm productivity through more appropriate technology, increased access to credit and improved marketing, and to create opportunities for off-farm employment. Grant funds will be used to expand these programs to additional rural communities.

(b) Land titling: Grant funds will be utilized to assist land holders to clarify land tenure.

(c) Private sector investments in productive infrastructure: The Guatemalan private sector has expressed its commitment to supporting the peace process, and for this purpose, has created an association of private foundations. Grant funds may be utilized, on a matching basis, to stimulate private sector investment in the formerly conflictive areas, leading to sustainable employment opportunities.

**Discussion and Recommendations**

(a) Generation of sustainable income opportunities: **Recommendation: Positive Determination** (To the extent that these are amendments to ongoing activities, covered under existing, approved Environmental Assessments - Communities in Transition, Maya Biosphere Project, etc. - and adhere to adopted mitigation measures and best management practices, no further environmental review will be required. If new activities are contemplated, and environmental review will be necessary, to be reviewed and approved by the Bureau Environmental Officer.)

(b) Land titling: **Recommendation: Positive Determination** (To the extent that this applies to amendments to ongoing titling activities, covered under existing, approved Environmental Assessments - in the Maya Biosphere Project - and adhere to adopted mitigation measures and best management practices, no further environmental review will be required. If new activities are contemplated, an environmental review will be necessary, to be reviewed and approved by the Bureau Environmental Officer.)

(c) Private sector investments in productive

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infrastructure: Recommendation: Categorical Exclusion  
(Based on 216.2 (c)(2)(xiii) given that A.I.D. does not require knowledge of or control over the details of the specific activities conducted by the PVO.) However, under the Operating Expense Trust Fund, these activities will be monitored and periodically reviewed.

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**4. Modernization and Strengthening of State Institutions to Achieve Implementation of the Peace Accords****Description**

This program area includes activities related to strengthening respect for human rights, modernization of the executive branch, support for local development councils and municipal development, and modernization of the Office of the Controller General.

(a) Justice Sector Reform, especially the extension of the judicial system into the ex-conflictive zones. USAID will provide support through the United Nations.

(b) Tax and Customs Reform: Funding provided through this Agreement will be used to support additional short-term specialized technical assistance in the area of fiscal reform; and provide assistance to the GOG to develop implementing regulations to facilitate private investment in energy and telecommunications.

(c) Strengthening and modernization of the Legislative Assembly USAID has a limited program of support for the Legislative Assembly, and stands prepared to provide additional funding to support the legal reform process with future increments of funding to be made available under this Agreement.

(d) Support for the Land Fund (Fondo de Tierras): In addition to local currency support to be provided through the generations derived from the FY 1997 Cash Transfer, incremental funding may be used for additional technical assistance or commodity support to the Fondo de Tierras, to allow it to function in the manner contemplated by the Peace Accords.

**Discussion and Recommendations**

(a) Justice Sector Reform Recommendation: Categorical Exclusion

(b) Tax and Customs Reform: Recommendation: Positive Determination An EA may not be required if all resulting energy regulations and guidelines conform to existing environmental review and regulations.

(c) Strengthening and modernization of the Legislative Assembly Recommendation: Categorical Exclusion

(d) Support for the Land Fund (Fondo de Tierras): Recommendation: Positive Determination As mentioned above, adequate environmental safeguards should be built into the legislation.

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**5. Program Management and Support****Description**

Funds budgeted under this line item will be used to contract special studies and personnel required to perform these monitoring activities, to determine whether the needs of intended customers are being met, to determine whether conditions for sustainability exist, as well as to assess unexpected developments either positive or negative, affecting planned results, and to adjust activities accordingly.

**Recommendation: Categorical Exclusion (Studies and technical assistance)**

**Recommendation: that adequate funds are available for necessary environmental and ecological studies and assessments.**

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