

PD-ABP-013

UNITED STATES GOVERNMENT

**RESULT PACKAGE APPROVAL MEMORANDUM TO THE MISSION DIRECTOR**

DATE: June 3, 1996  
REPLY TO: PD&I-M- 116/96  
ATTN OF: Jaime Vizcarra, PD&I  
SUBJECT: Balance of Payment (BOP) Cash Transfer Result Package (RP) approval.  
TO: Lewis Lucke, Director, a.i.  
Through: Olivier Carduner, PD&I Director

**I. Action Requested:**

You are requested to approve the subject US\$10 million FY 1996 ESF Balance of Payments (BOP) Cash Transfer Program. Under ADS E202.5.5, Principles for Developing and Managing Activities, all new activities must support the achievement of results in the results framework of a Mission approved strategic plan. As discussed below, this results package contributes to the achievement of Intermediate Results under the Economic Opportunity and Democracy Initiatives Strategic Objectives.

In requesting your approval of this results package, we note that ADS 202.5.7 requires that agreements meet applicable statutory, regulatory and USG policy requirements prior to obligation of funds. We further note that Reengineering Transition Guidance Cable No. 2 (9/20/95) requires that prior to obligation, analyses (socio-cultural, technical, institutional, financial and environmental), as applicable, have been completed, that implementation and disbursement methods have been adequately identified and that adequate planning has been completed with respect to the intended results to satisfy FAA Sec. 611(a). These items are addressed in this results package. In approving this results package, you are thus acknowledging that the above-mentioned components of ADS 202.5.7 and the Reengineering Transition Guidance Cable No. 2 are adequately addressed prior to obligation of these funds. In the new DOA Mission Order expected to be issued shortly, this Mission plans to formalize use of the results package approval stage as a check point to insure that these planning elements are adequately addressed prior to obligation.

You have the authority to approve this results package and execute the corresponding grant agreement with the Government of Bolivia in accordance with the delegation of authority in ADS 103.5.14b1, as instructed by the AA/LAC in State 110951 following the interagency DAEC review.

**II. Discussion:**

Paragraph 4 of the R4 reporting cable (State 110815) directed the Mission to prepare a

PAAD and submit it to USAID/W for review and approval. The DAEC reporting cable, State 110951, recommended approval of the PAAD and instructed the Mission to proceed with negotiation of the agreement and obligation of funds after expiration of the Congressional Notification. That cable also makes USAID/Bolivia responsible for assuring all statutory, regulatory and policy requirements have been met in accordance with the Automated Directives System (ADS) 202.5.7.

This program is a key element of USAID Bolivia's ESF-funded counter narcotics efforts. The program provides the GOB with necessary resources to offset the cost of meeting joint USG and GOB counternarcotics and law enforcement objectives.

ADS 202.5.5a requires that all USAID funded activities be explicitly linked to the achievement of results in an approved results framework. This program is linked, by tradition, to the Economic Opportunity (E.O.) Strategic Objective (SO) because previous Cash Transfer Programs were designed to address macroeconomic conditionality. This program's eradication conditionality will encourage Chapare farmers to engage in licit income-earning crops thereby contributing to the achievement of Intermediate Result 1 (I.R.1), under the E.O. SO "Expanded licit income-earning opportunities for the poor." Based on this, you made the determination to keep this program under the E.O. SO for consistency with previous practices and to reduce confusion in this re-engineering transition period. In addition, this program's conditionality is closely related to the Democracy SO because the implementation of an effective assets seizure program and execution of a money laundering law will significantly contribute to the democracy initiatives (D.I.), Secondary Intermediate Results 1, "institutional capacity of key justice sector agencies improved including management systems and police officials skills." The Administration of Justice Program has and will continue to provide TA via DOJ/OPDAT to the GOB in these areas. Further, the implementation of the money laundering law will also contribute to improving ethics practices under Intermediate Results 2, "Public sector institutions made increasingly accountable, transparent and responsive."

Disbursements will be in two tranches of US\$5 million each, subject to the GOB meeting established conditions in key counter narcotics areas. The stated conditions precedent are in agreement with the GOB's counter narcotics and law enforcement goals as stated in Bolivian Law 1008.

The quantitative measures of counter narcotic progress are as follows for each tranche:

- **The first tranche** will be disbursed when coca eradication has reached at least 2,500 hectares during calendar year 1996 and the GOB is proceeding with eradication efforts at a rate consistent with achieving annual eradication goals established by Law 1008.
- **The second tranche** will be disbursed when the GOB has met the following three conditions:

1. Satisfactory progress on meeting eradication targets consistent with Law 1008.
2. Satisfactory progress in developing and implementing an effective assets seizure and forfeiture program which allows the sale of forfeited assets to generate funds to be directed at counternarcotics efforts; and
3. Satisfactory progress in executing a law to make money laundering illegal and developing the necessary regulations and implementing capacity to enforce this law.

In addition to the above conditions, the standard conditions precedent necessary for implementation of the program are included in the agreement. This includes issuance of a legal opinion demonstrating that the agreement was duly ratified under Bolivian law and establishment of a separate dollar account by the Bolivian Central Bank.

Dollars provided by the program will be disbursed to a separate, non-commingled, interest bearing account, and will be used for servicing Bolivia's non-military debt held by the USG and/or multilateral financial institutions. In accordance with Section 4.33(d) of the governing Policy Paper on Program Assistance (February 1996) and State 205189, the agreement specifies that any interest earned on funds in the U.S. Dollar Separate Account shall be returned to the Government of the United States. No local currency generations will be required.

### **III. Result Package Documentation:**

The following documentation comprise the RP to be approved:

1. This Result Package Approval Memorandum;
2. The PAAD;
3. The draft E.O. and Democracy results frameworks;
4. The DAEC Cable (State #110951, dated 5/30/96). LAC has sent the DAEC cable advising the Mission that the PAAD has been reviewed by USAID/W, INL & ARA. The cable recommends that the Mission proceed with formal approval of the PAAD and negotiation of the PROAG.
5. The Congressional Notification. A CN for the subject US\$10 million RP was sent to Congress on June 3, 1996 (to be confirmed). At this time, no formal Congressional objections are expected prior to the expiration of the waiting period on June 18, 1996. Obligation of the US\$10 million will take place following the expiration of the CN;
6. The FY 1996 Country Checklist is included as an Appendix to the PAAD;
7. The FY 1996 Assistance Checklist is included as an Appendix to the PAAD;
9. An Environmental Threshold Decision for a Categorical Exclusion was approved by LAC Chief Environmental Officer, Jeffrey Brokaw on April 29, 1996 (LAC-IEE-96-22);
10. The draft Grant Agreement
11. Management Contract for USAID/Bolivia FY97-98 R4 Document (State No.110815)

The RP satisfies Agency requirements for result packages as described in ADS 202.5.4 . The above set of documentation describes in detail the set of activities, the linkages to the E.O. and Democracy SOs, statutory and agency requirements, the authorities and funding to be deployed in achieving the program results. LAC approval of the draft E.O. and democracy RF, which this program supports, is documented in the R4 and the Mission's Management contract.

#### **IV. Results Package Information:**

This section describes the seven categories of information for an RP as required by ADS Section E202.5.4a, or references where this information can be found in more detail. An eighth category, "Period of Achievement," while not required by the ADS, is herein included to specify the time frame for achievement of the program objectives.

**1. The set of activities designed to achieve the results in the RP.** The GOB will undertake the following set of key activities: eradication of coca consistent with Law 1008, development and implementation of an effective assets seizure program, and satisfactory progress in executing a money laundering law.

**2. Analysis required to approved activities.** The PAAD and the DAEC cable combined provide the E.O. and the Democracy SOTs and PD&I with sufficient information and analysis to approve this program.

**3. Explanation of how activities will achieve the intended results.** Eradication efforts will encourage Chapare farmers to grow licit crops which in turn will support the E.O. SO of "Expanded licit income-earning opportunities to the poor."

In addition, the implementation of an effective assets seizure program and a money laundering law will contribute to Secondary Intermediate Result 1, of our D.I. SO "institutional capacity of key justice sector agencies improved ."

**4. Personnel with the knowledge and capacity to deliver results.** The E.O. SOT has the managerial responsibility for achieving its Intermediate Result 1 and the Democracy SOT has managerial responsibility for achieving its Intermediate Result 1. The Director of PD&I--who is a key member of both SOTs-- will have the overall management responsibility for the cash transfer. The senior FSN Program Management Specialist--who has managed the large ESF BOP Cash Transfer Programs in Bolivia since inception-- will have the day-to-day management responsibility for the RP, including coordinating implementation with the designated GOB counterpart agencies. Both officers will closely coordinate the implementation of this program with the E.O. and Democracy SO team members.

**5. Responsibilities and authorities for result achievement.** The Delegation of Authority under ADS 103.5.14b1 provides the Mission Director with the authority to implement strategic, special and support objectives, including authority to negotiate and execute grants and approving documents related thereto. State 110951 specifically directs USAID/Bolivia to proceed with

negotiation of the agreement and obligation of funds after expiration of the congressional notification, per ADS 103.5.14b1. The planned new DOA Mission Order is expected to further delegate much results package implementation authority to the SO level. It is thus expected that the actual implementation of this activity will be carried out on the SOT level, with Mission Director approval, as necessary.

**6. USAID and partner's funding for results achievement.** Subject to the availability of funds for the achievement of the results under the FY 1996 ESF Cash Transfer program, USAID plans to obligate up to US\$10.0 million for achieving the results outlined in the grant agreement.

**7. Performance monitoring for results achievement.** Monitoring for results achievement will be carried out by the FSN Program Manager in coordination with NAS who will provide official eradication figures and in coordination with the Democracy Initiatives Office/OPDAT in the Mission for the other two conditions precedent, pertaining to the effective implementation of an asset seizure program and money laundering law.

**8. Period for results achievement.** Work will officially begin towards the achievement of the program results with the signing of the grant agreement o/a June 19th, 1996 (note though that the applicable period to meet eradication targets is calendar year 1996) and is expected to be completed by December 31st, 1996. During implementation of the program this final date may be extended.

**V. Recommendation :**

That you indicate your approval of the US\$10 million FY 1996 ESF Balance of Payments Cash Transfer Result Program (511-0639) for Bolivia by signing below.

Approved: *[Signature]*  
 Disapproved: \_\_\_\_\_  
 Date: June 5, 1996

PD&I:JVizcarra - 6/3/96

Clearances

RLA:DJames (in draft 6/4/96)

CONT:RGoughnour (in draft 6/4/96)

EO SOT: CHash (in draft 6/4/96)

DISOT:CCira (in draft 6/4/96)

A/DP:GSzepesy (in draft 6/4/96)

A/DD:DGoughnour *[Signature]* date 6/5/96

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# **BOLIVIA**

**FY96 Counternarcotics Cash Transfer  
Program Assistance Approval Document  
511-0639**

**USAID/Bolivia**

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- ~~A. Country Checklist~~
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- C. Initial Environmental Examination

## **I. EXECUTIVE SUMMARY**

The US Embassy Country Team in Bolivia proposes a \$9 million ESF cash transfer program to support US and GOB counternarcotics program objectives in Bolivia. The program will provide critical budgetary support to the GOB for offsetting the economic impact of its coca eradication program. Dollars provided under this program will be disbursed in two equal tranches. The first tranche will be disbursed when coca eradication has reached at least 2,500 hectares during calendar year 1996 and the GOB is proceeding with eradication efforts at a rate consistent with achieving annual eradication goals established by Law 1008. The second tranche will be disbursed when the following three conditions are met:

- Satisfactory progress on meeting eradication as consistent with Law 1008.
- Satisfactory progress in developing and implementing an effective assets seizure and forfeiture program which allows the sale of forfeited assets to generate funds to be directed at counternarcotics efforts.
- Satisfactory progress in executing a law to make money laundering illegal and developing the necessary regulations and implementing capacity to enforce this law.

Dollars disbursed to the GOB will be used for payment of non-military U.S. and multilateral debt. Local currency generation requirements will be limited to 10% of dollar disbursements and be allocated to the USAID local currency Trust Fund used to partially finance USAID cost of operation in Bolivia.

## **II. PROGRAM OBJECTIVES**

As detailed in the approved USAID/Bolivia Program Objectives Document (POD) for FYs 1993-1997, the U.S. Government's principal goals in Bolivia include support for: (1) democratic processes; (2) economic stabilization and sustainable growth; and (3) eventual elimination of illegal coca/cocaine production and trafficking. These goals are supported by the USAID Mission's four strategic objectives in the areas of economic opportunity, strengthening democracy, health and family planning and environment. The Mission's strategic objectives are consistent with Global USAID strategies and the Administration's foreign policy objectives on drugs, democracy, and sustainable development. A recent progress report on these objectives was provided in the Mission's "R4" document for FYs 1997-1998 (Washington review completed April 96). A summary of results

achieved to date by USAID alternative development efforts is included in section III.D. below.

The cash transfer program, in addition to supporting overall counternarcotics efforts, gives the GOB tangible benchmarks in its execution of Law 1008 and other specific counternarcotics goals. These benchmarks are used for the annual counternarcotics certification process required by Congress. Balance of payments assistance provides the wherewithal by which the GOB can press forward in its war on drugs. Without this timely cash assistance to the central government, effective coca eradication becomes more difficult for the GOB to plan and execute. Effective eradication and interdiction require significant political courage and decision-making at the national level.

The goal of the FY 96 cash transfer program is to provide support to the triad of U.S. interests in Bolivia, i.e., counternarcotics, democracy and sustainable economic growth. Between 1990 and 1993, cash transfer programs were more specifically justified as a means to providing balance of payments support to sustain the GOB's economic recovery program, and to off-set losses of foreign exchange resulting from suppression of the narcotics trade. The FY96 program, being much smaller than its predecessors, cannot claim to materially affect the GOB's BOP position. It will however provide general budget support to the GOB to partially compensate for the budgetary costs incurred to achieve counternarcotics targets.

ESF funding for counter-narcotics will likely continue to become increasingly scarce. To reduce the possibility of gradual "back-sliding" from progress made to date, the Country Team proposes to specifically focus this program to support and encourage GOB drug war self-financing. In addition to the normal eradication related conditionality, two new conditions in the areas of money laundering and seized assets forfeiture are proposed which will encourage the GOB to move towards increasing financial sustainability of its drug enforcement efforts.

### **III. BACKGROUND**

#### **A. Coca Eradication Progress.**

The program of voluntary eradication began in September 1987. As reflected in Table 1, there were approximately 42,000 hectares of coca cultivated in Bolivia at that time, of which about 26,000 could be found in the Chapare region. In 1988, the GOB passed the landmark counternarcotics Law 1008 which established legal limits on growth of coca and required eradication of illegal coca. The Yungas coca growing region which supplies the market for traditional uses of coca leaf (chewing and tea) was maintained as a legal growing zone. The Chapare (source of coca for cocaine production) was declared a

transition zone whereby all new plantations were considered illegal and subject to forced eradication, while existing plantations would be gradually eliminated through a program of voluntary eradication. Law 1008 also established that annual eradication targets would be set ranging from 5,000 to 8,000 hectares. During the eight and a half years to March 1996, more than 33,000 hectares were eradicated nationwide, including about 32,181 hectares in the Chapare.

**1987-1989.** Total gross eradication during this three-year period was less than 5,000 hectares while new coca cultivation is estimated to have increased by about 20,000 hectares (Table 1).

Prior to the February 1990 Cartagena Summit, disbursements of USAID's ESF cash transfer programs were conditioned on macroeconomic policy performance and sound economic management. Actual disbursements during the 1986-1989 period totaled \$39 million, an average of about \$10 million a year. Following the February 1990 Cartagena Summit, funding levels were significantly increased (see Table 2) and annual disbursement conditions were expanded to include performance in the area of counter-narcotics.

**1990-1992.** During the three-year period of 1990-1992, the GOB complied with its own counternarcotics Law 1008 by eradicating more than 5,000 hectares annually. Graph 1 also shows that the twelve-month moving average of number of hectares eradicated during this period was the highest, averaging 657 hectares in December 1990, 457 hectares in December 1991, and 429 hectares twelve months later. Despite new coca cultivation during the same period that averaged some 3,800 hectares per year, net coca cultivation declined by about 7,400 hectares during this three-year period, from 52,900 hectares in 1989 to 45,500 hectares in 1992. It is important to note that the amount disbursed in ESF cash transfers during this period also was the highest, averaging \$41.4 million per year, or about 83% of the amounts approved (see Table 2).

**1993-1994.** The number of hectares eradicated declined continuously since the 1990 peak of 8,208 hectares. During the 1993 election year, only 2,397 hectares were eradicated. The declining trend of net hectares cultivated reversed in 1993 as more than 4,000 hectares of new coca are estimated to have been planted and net coca cultivation increased from 45,500 hectares in 1992 to 47,200 in 1993.

1994 saw a continuation of the 1993 pattern, as 1,058 hectares were eradicated while an estimated 1,958 hectares of new coca were cultivated. The twelve-month moving average of number of hectares eradicated in December 1994 was a low 84 hectares, declining to a record low of 78 hectares in February 1995 (see Graph 1). New GOB priorities centered at first around the reform

TABLE 1

AREA OF CULTIVATED COCA NATIONWIDE (Has.)						
YEAR	TOTAL NO. OF HECTARES OF CULTIVATED COCA (1)	GROSS ERADICATION(*) (2)	TOTAL NET NO. OF HECTARES OF CULTIVATED COCA(**) (3)=(1)-(2)	MATURE COCA CULTIVATION (4)=(3)-(5)	IMMATURE COCA CULTIVATION (5)=(6)+(***)	NEW COCA CULTIVATION (6)=(1)-(3)(X)
1986	38,027	227	37,800	37,800		
1987	42,409	1,109	41,300	36,691	4,609	4,609
1988	50,289	1,389	48,900	35,302	13,598	8,989
1989	55,323	2,423	52,900	37,488	15,412	6,423
1990	58,508	8,208	50,300	38,269	12,031	5,608
1991	53,287	5,387	47,900	39,305	8,595	2,987
1992	50,609	5,109	45,500	39,804	5,696	2,709
1993	49,597	2,397	47,200	40,394	6,806	4,097
1994	49,158	1,058	48,100	42,045	6,055	1,958
1995	54,293	5,693	48,600	40,449	8,151	6,193

(\*) Based on official información provided by DIRECO. Includes new coca eradicated.

(\*\*) Based on photogrametric information.

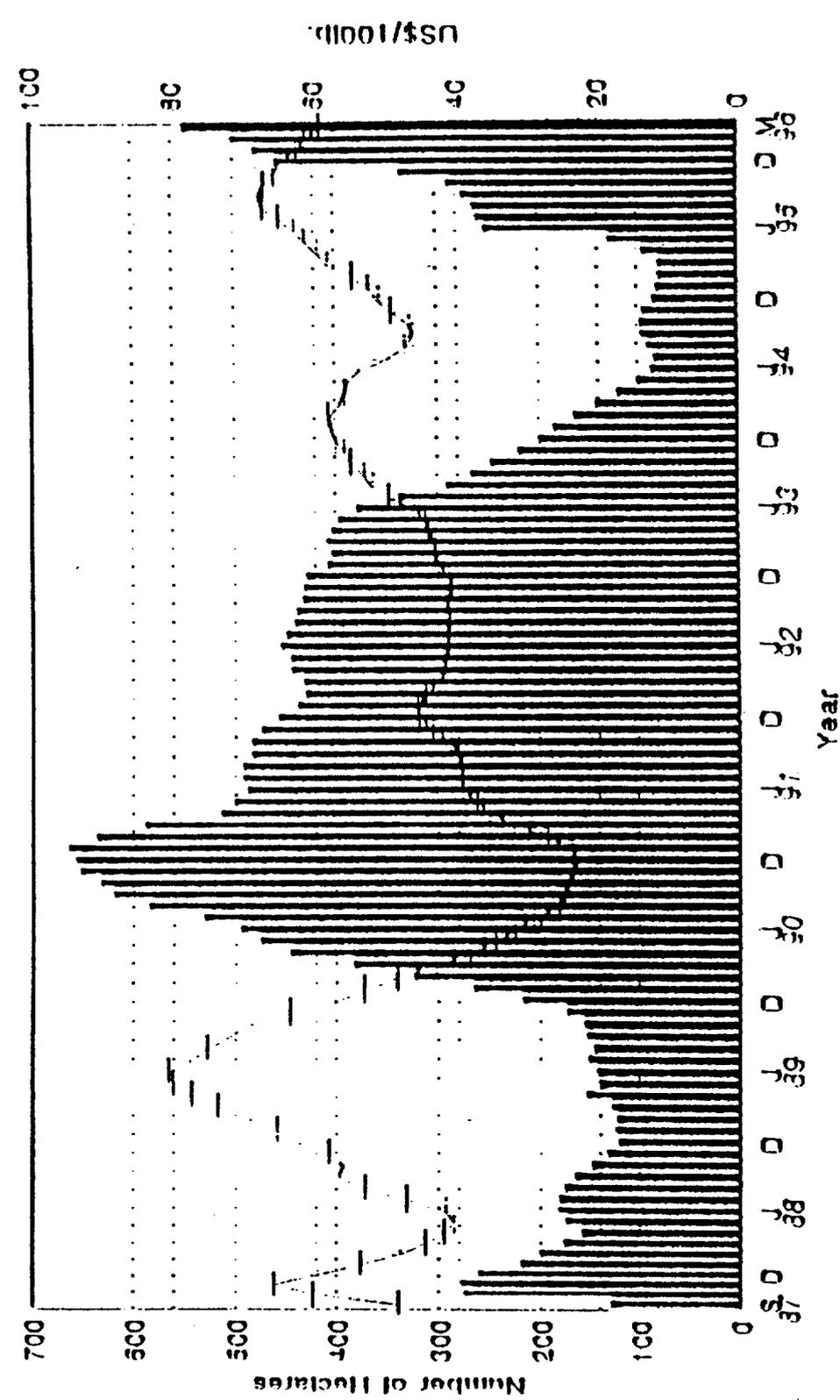
(\*\*\*) The sum of new cultivation in previous year and in the current year.

(X) The difference between the current total number of has. cultivated with coca and the total net number of has. cultivated with coca the previous year.

# MOVING AVERAGE ERADICATION AND PRICES

September 1987 - March 1996

■ Eradication — Price



## POINT INDICATORS (Has. and US\$)

Mar96 eradication	308	Feb96 eradication	304	Erud.Mov.Avg..Mar95	791
Mar96 coca price	42.5	Feb96 coca price	62.4	Price Mov.Avg..Mar95	57.3

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TABLE 2

ESF BALANCE OF PAYMENTS PROGRAMS 1986-1995 (\$000)				
Year	Dollar Level		Local Currency Generated	
	Approved	Disbursed	Planned	Generated
1986	7,177	7,177	7,177	7,177
1987	7,160	7,160	7,160	7,160
1988	7,320	7,320	7,320	7,320
1989	23,500	17,750	17,750	17,625
1990	18,000	18,000	6,500	6,500
1991	66,000	59,800	50,000	45,300
1992	66,000	46,300	50,000	34,743
1993 *	40,000	10,000	30,000	7,500
1994 *	---	15,500	---	11,625
1995 *	---	4,500	---	2,250
<b>Total</b>	<b>235,157</b>	<b>193,507</b>	<b>175,907</b>	<b>133,325</b>

\* The dollar amounts disbursed and local currency generated in 1993, 1994 and 1995 were provided from the \$40 million approved in 1993.

of the Executive branch, and then on the design of the structural reforms of Popular Participation, Capitalization and Education Reform. This explains in part, the low performance. The new administration was also disenchanted with the main pillars of the counter-narcotics strategy of interdiction, eradication, and alternative development. It proposed a new plan, called "Zero Option", which was not politically, financially and administratively feasible to implement. No new ESF cash transfers support was provided during 1994.

1995. Annualized eradication based on first quarter performance was 528 hectares, about one-tenth of the annual target set by law. This low performance was in part due to lack of GOB political will and low funding availabilities for eradication compensation. After the USG announced a possible decertification of Bolivia unless 1,750 hectares were eradicated by the end of June, 213 and 461 hectares were eradicated in April and May, respectively. As the 90-day deadline period approached, June eradication jumped to a record high of 1,569 hectares for a total of 2,243 hectares. To comply with the end-of-year eradication target of 5,400 hectares and avoid decertification, the GOB accelerated the pace of eradication during the last two months of the year. After averaging some 224 hectares per month between July and October (at an annualized rate of 2,428 hectares), eradication in November reached 632 hectares and 1,508 hectares (second highest ever) in December. The alarming growth in net coca cultivated that occurred between 1992 and 1994 (1,300 hectare increase per year on average) was slowed considerably by the GOB's 1995 efforts and the net increase was kept at 500 hectares.

#### B. Impact of Cash Transfers

Table 2 summarizes funding levels for USAID cash transfer programs from 1986 to 1995. Since the first balance of payments program in 1986, \$194 million of \$235 million made available have been disbursed to the GOB for payment of external debt. The difference of \$41 million was de-obligated due to the GOB's inability to fully meet coca eradication conditionality. Under the terms of the cash transfer agreements, the GOB generates local currency resources which are subject to joint USAID/GOB programming. Since 1986, the GOB generated approximately \$133 million in local currency. In recognition of the GOB's substantial costs to conduct eradication campaigns and other counter-narcotics efforts, USAID reduced the local currency generation requirement from 100% of US dollars disbursed to 75% starting in 1991. This amount was further reduced to 50% in 1995. Most of this local currency was programmed to meet GOB counterpart funding requirements to USAID, World Bank and IDB projects. In total about 150 development project and activities were directly supported, including 63 co-financed with USAID dollars.

The impact of these cash transfer programs have been substantial. They can be measured at three levels. First, at the level of conditionality, the GOB's achievement of disbursement conditions has helped ensure continued macroeconomic stability and structural reforms necessary to promote more sustainable development of the national economy. This helped create an economic environment where growth in alternatives to coca was possible, giving Bolivians other options besides the dollarized cocaine trade to maintain standards of living. Conditionality also has played a key role in achieving more specific counter-narcotics objectives, including gross eradication of more than 34,000 hectares of coca through March 1996, and suppression of cocaine processing and trafficking.

Second, dollars disbursed under the programs have permitted the GOB to divert scarce resources from debt servicing to promotion of economic growth through ESF local currency funded projects.

Third, the particular method used for selecting, planning and implementing local currency has ensured a much greater development impact than would have been the case had these funds simply been subject to normal GOB budgetary and planning procedures. The economic growth resulting from the combined use of conditionality and local currency programming has helped provide significant alternative non-coca income and jobs.

#### C. Cost of Eradication Efforts

The GOB's eradication program, set forth in Law 1008, includes both forced and voluntary eradication. Forced eradication results in no compensation to farmers, while voluntary eradication results in a compensation of \$2,500 per hectare of coca. Due to the GOB's desire to avoid social unrest, the program has, in practice, largely been based on compensated voluntary eradication. Between 1988 and 1994, only 10% of coca eradication was achieved through forced eradication. Total compensation paid by the GOB to farmers since the beginning of the program in 1987 through March 1996 was about \$60 million.

The GOB has announced it will seek to eradicate a total of 6,000 hectares of coca in CY1996. Total estimated budgetary cost to the GOB for achieving this target is as follows:

1. High impact community projects used to negotiate eradication agreements	\$1.0 million
2. Compensation to farmers for voluntary eradication of 6,000 hectares (at \$2,500 per hectare)	\$15.0 million
TOTAL	\$16.0 million

Note that this estimate does not include the cost of heightened military presence in the Chapare to achieve these targets, nor does it include significant administrative overhead costs. The \$16 million figure is therefore a conservative estimate.

**D. Effect of Program on Cocaine Exports.**

While this cash transfer will only partially off-set the GOB's costs, the impact of our contribution, measured in terms of equivalent cocaine value is significant. The Total value added of the coca/cocaine sub-economy for 1995 is estimated at \$198 million, or about 3.4% of Bolivia's GDP. Total cocaine base and cocaine exports are estimated to be about \$176 million, or 16.9% of legal merchandise exports.<sup>1</sup>

Eradication of 6,000 hectares during 1996, assuming 1995 prices, domestic consumption and subtracting estimated amounts that would likely be seized through enforcement efforts, implies a decline in value added of \$44 million and a loss of \$48 million in export earnings for the Bolivian economy.

Potentially, a reduction of one hectare cultivated with coca represents a reduction of about \$130,000 worth of cocaine at U.S. wholesale prices or \$565,000 at U.S. retail value. Given the total funding level being provided, the FY96 cash transfer program, by enabling the GOB to meet its eradication targets, would prevent the production of :

- 15 metric tons (MT) of coca leaves used for coca base production,
- 41 MT of coca base produced and 21 MT exported, and
- 21 MT of cocaine HCL produced and exported.

These reduced volumes are equivalent to:

- an export value of about \$55 million,
- a U.S. wholesale value of about \$530 million, and
- a U.S. retail value of about \$2.3 billion.

These numbers show that the relatively modest FY 96 cash transfer could leverage about 400 times its value when measured in U.S. cocaine street prices.

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<sup>1</sup> These figures are the latest estimates obtained from USAID/Bolivia's coca/cocaine sub-economy computer model. This model is currently being significantly revised to incorporate new information on narcotics trade patterns. This revision is expected to result in changes to the figures cited here.

## **E. Alternative Development Progress**

The US and GOB counternarcotics program in Bolivia is based on a three pronged strategy of eradication, interdiction and alternative development. The fundamental objective of the alternative development program is to provide legal sources of income to coca growers, and more generally, to support the sustainable growth of the Bolivian economy such that the coca sub-economy never returns to the economic preeminence it held in the early and mid 1980s. At that time, many who sought to protect their families from hyper-inflation and high unemployment had little choice but to shift to the lucrative dollarized (and therefore inflation protected) coca trade.

A major USAID objective in the past several years therefore has been to reduce the size of the coca sub-economy in relation to the rest of the economy. In addition to the series of cash transfers from 1986 through 1993, all conditioned on promoting sound macro-economic management, USAID has implemented several projects aimed at supporting broad-based sustainable growth. These included a highly successful export promotion project which, in return for a \$23 million USAID investment (\$6 million ESF plus \$17 million DA), has to date generated \$56 million in permanent foreign private investments, \$137 million in sustainable nontraditional exports, and 10,000 permanent jobs; a policy reform project which created a world class cadre of Bolivian expertise which successive GOB cabinets have consistently taped for macroeconomic policy formulation; and a rural electrification program which has provided 12,000 new electricity connections to businesses and households in and near the Chapare, and greatly strengthened the capacity of rural electrical cooperatives for sustaining and further expanding these services. These and other cumulative and synergistic efforts have been highly successful. The size of total coca exports measured as a percent of legitimate exports has declined from an extraordinary 84% in 1988 to 16.9% in 1995. Similarly, the size of the total coca sub-economy as a percentage of the total legal economy has decreased from 8.5% in 1988 to 3.4% in 1995. While these results do not in themselves slow the export of coca from Bolivia, they are central in making politically feasible a more aggressive enforcement and interdiction effort.

The centerpiece of USAID's alternative development efforts in the Chapare coca growing areas is the Cochabamba Regional Development Project (CORDEP). The years of sustained USAID effort aimed at developing sustainable non-coca agricultural production are now paying off in major ways. For the past two years, we have witnessed dramatic increases in exports of CORDEP developed alternative agricultural products from the conflictive coca-growing Chapare region. Farmers are clearly being encouraged to turn away from coca production as their new licit crop incomes increase. For example, over \$1.0

million in Chapare bananas were exported to Argentina in 1995 by a growing Bolivian company (WINNEX), and demand for high quality bananas in the local market has pushed up farm-gate prices to three times the levels which existed two to three years ago. Fruits and vegetables from the Chapare and neighboring High Valleys were successfully exported to each of Bolivia's five neighboring countries, the most significant being bananas and pineapples to Argentina. Container shipments to Europe of banana and cassava flour and dried fruit chips have been well received with continuing orders. The same may be said of the first shipment of canned palm heart to Japan. With two small canneries now operating in the Chapare and another being planned in association with a 300-hectare plantation, a major environmentally sound palm heart industry has been launched in the Chapare. Clearly, demand for alternative development crops is significant and growing.

Chapare land area devoted to licit crops is now twice as large as that devoted to coca and private investor interest in the Chapare is increasing daily. Chilean, Ecuadorian and Puerto Rican investors are currently negotiating for several hundred hectares of land to supply a significant portion of the Buenos Aires market which they previously supplied exclusively from their own countries. They plan to begin with 300 hectares of bananas, gradually expanding their plantings to move in a major way once there is a paved road all the way to the Argentine border. A Bolivian investor planted 200 hectares in bananas and is entering into a marketing agreement with WINNEX for the exportable portion of his production. WINNEX itself plans to establish 200 hectares on its own land within the year. These and CORDEP-supported expansions of high quality banana production through NGOs and producers' associations should alleviate the supply problems that now limit exports. The absorptive capacity of the Argentine market is far beyond what can be produced in the Chapare well into the next century.

Bottlenecks in the production of black pepper plants have been relieved and rapid expansion of the crop, to supply domestic and regional markets, is foreseen. Black pepper is an attractive product for the Chapare due to its high use of manual labor, simple processing, and high value to bulk/weight ratio. This latter factor makes it well suited to many of the areas not well served by roads. Production of passion fruit is also increasing rapidly to fill unmet demand both locally and in Southern Cone markets. Major private sector based expansion in the export of both fresh and processed products from the Chapare are planned. Bananas will continue to be the leader in fresh fruit exports with weekly shipments expected to double by mid-1996 and double again by year's end. The exporter, WINNEX, confidently plans to export over one million boxes in 1997.

The excellent results now being obtained by the CORDEP

project has created real viable alternatives for coca growers. Though it took years of efforts, the strategy of developing new competitive markets based on private initiative rather than government administered mechanisms will ensure long-term sustainability of our efforts. On a political level, the results of our program is now directly undermining the key argument used by coca growing syndicates to generate political opposition to Government eradication efforts: namely, that alternative development does not work. Clearly, Chapare farmers can now make a decent living for their families in licit activities.

## **F. Asset Forfeiture and Money Laundering**

### **1. Implementation of Seized Asset Forfeiture Decree**

The GOB promulgation late last year of Supreme Decree No. 24196 provided the basis for an effective asset seizure and forfeiture regime, and created a significant opportunity to establish a new source of financing for future GOB eradication and interdiction expenditures. Millions of dollars of property seized from narcotraffickers are squandered because the GOB does not have the capability to use and dispose of it effectively. An estimated \$30 million worth of assets is currently being held. These assets are now subject to mismanagement, illegal and non-uniform treatment by the courts, and diversion to non-official use creating a significant corrupting effect over time. An effective well managed program could both reduce public corruption and generate an estimated \$7 to 10 million annually. If this revenue is in turn directed at interdiction and eradication efforts, the GOB will be in a much better position to meet future counternarcotics certification requirements in the absence of significant external dollar financing. USAID/ODI and DOJ/OPDAT are currently providing technical assistance to the GOB in this area under the USAID financed Administration of Justice Project. An assets seizure and forfeiture program can't begin however, unless the GOB makes a sizeable up-front investment. The conditions proposed below seek to utilize the cash transfer to provide key political support to those in the GOB who are trying to make such a program happen.

The actions to be taken in accordance with our recommendations include:

- \* Early drafting and approval of implementing regulations and manuals for the reorganization of the Direccion Nacional de Bienes Incautados (DNBI).

- \* Assignment of adequate Ministry of Government (MOG) manpower and resources (including computer hardware) for the effective operation of the DNBI and for asset tracking and registration.

\* Establishment of internal MOG controls to prevent pilferage and corruption in the administration of the program. MOG recently took action to dismiss and institute criminal actions against DNBI officials suspected of corruption.

\* Sponsoring of the present National Legal Symposium on Decree 24196 to activate the reorganized DNBI and promote uniform treatment by the prosecutors and the courts. MOG Minister Sanchez Bersain is personally involved in the seminar and workshop organized through the USAID project by DOJ/OPDAT on the interpretation, application, and administration of the new decree for prosecutors, judges, PTJ, FELCN and DNBI officials. U.S. Attorneys and U.S. Marshals are providing the technical assistance.

## **2. Adequate legislation to specifically criminalize money laundering.**

Money laundering in Bolivia is currently not specifically addressed under the criminal code. It must be reached through indirect means such as the law concerning concealment or aiding and abetting of a crime. The USG has long pursued passage of an effective law making the action of laundering proceeds of narcotics trafficking specifically illegal, and Bolivia has signed all the major international and regional agreements requiring signatories to do so. The Minister of Justice has requested USAID assistance in the drafting and consideration of the legislation and has already made substantial progress. U.S. experts from DOJ and IRS will arrive this month to assist in the drafting efforts, which also involve the Superintendency of Banks and ASOBAN, the bankers association.

In addition to providing an important new weapon in drug enforcement efforts, such a law would result in additional seizures of financial assets and increase potential GOB drug war financing.

Two conditions are proposed below to support these key efforts. These will continue to be supported by special technical assistance efforts to responsible GOB law enforcement and regulatory entities through the existing Administration of Justice Project.

#### **IV. CONDITIONALITY**

Program dollars will be disbursed in two equal tranches when the following conditions have been met.

**A. Condition Precedent to First Disbursement**

i. Satisfactory progress in coca eradication efforts from January 1 1996 through the date of signing of the cash transfer agreement. Disbursement will be made when coca eradication has reached, at least 2,500 hectares during calendar year 1996 and the GOB is proceeding with eradication efforts at a rate consistent with achieving annual eradication goals established by Law 1008. The intent is to quickly provide the GOB with the budget support needed to offset the costs required to achieve its eradication campaign for the rest of 1996. Given current progress, it is expected that the first tranche will be disbursed immediately after signing of the program agreement.

**B. Conditions Precedent to Second Disbursement**

The second tranche will be disbursed soon after the end of 1996 based on the following three conditions being met:

i. Satisfactory progress on meeting eradication as consistent with Law 1008.

ii. Satisfactory progress in developing and implementing an effective asset seizure and forfeiture program which allows the sale of forfeited assets to generate funds to be directed at counternarcotics efforts.

iii. Satisfactory progress in drafting a law to make money laundering illegal and developing the necessary regulations and implementing capacity to enforce this law.

In addition to the above conditions, the standard conditions precedents necessary for implementation of the program will be included in the agreement. This includes issuance of a legal opinion demonstrating that the agreement was duly ratified under Bolivian law and establishment of a separate account, as described below for managing of program resources.

**V. FUNDS UTILIZATION AND ACCOUNTING**

**A. Establishment of Separate Account**

Prior to first disbursement of the U.S. dollar cash transfer, the Central Bank of Bolivia will have established a U.S. Dollar Separate Account in a U.S. bank of its choice in the United States for the purpose of receiving dollars disbursed under the FY96 cash transfer. This account will be used only for the agreed purposes of the Program, and funds deposited in this account will not be commingled with any other funds. The account

will be interest bearing.

In accordance with interim guidance in State 205189, the agreement will specify that Bolivia agrees that any interest earned on funds in the U.S. Dollar Separate Account shall be returned to the Government of the United States. Alternatively, the Parties may agree on a method of direct disbursement of grant proceeds by the United States in payment of certain debt or other obligations of Bolivia. USAID will issue a program implementation letter under the agreement to provide instructions on effecting payment to the United States of any interest earned or on the alternative disbursement method.

#### **B. Use of the Dollars**

Continuing past practice and the GOB's strong preference, dollars disbursed under this program will be used to help reduce Bolivia's external non-military U.S. bilateral and multilateral debt.

The Mission's and LAC Bureau's position on use of cash transfer dollars has been consistent since FY 1992. Given the existence of a free-market foreign exchange regime in Bolivia implemented via an open Central Bank auction system, and USAID's own policy preference of not imposing restrictions on import and foreign exchange regimes, the use of the Commodity Import Program or other reimbursement for U.S. commodity procurement or related mechanism for tracking dollars to imports would be inappropriate in this case. The purposes of the Bolivia ESF Cash Transfer program will be best served by allowing the use of dollars for the servicing of debt. This rationale for the use of ESF dollars was originally presented and accepted at the 1992 PAAD review in USAID/W.

With respect to this use of the dollars to service or reduce external debt, the GOB will prepare and submit to USAID a schedule of eligible obligations to be paid using U.S. dollars made available for such use under the Agreement. USAID will review the list and approve eligible payments in accordance with the availability of U.S. dollars for this purpose from each AID disbursement into the U.S. Dollar Separate Account. The Central Bank of Bolivia will make the approved payments directly from the U.S. Dollar Separate Account. In the event that subsequent audits identify any non-eligible uses of dollars from the U.S. Dollar Separate Account, whether or not previously authorized, the Central Bank will redeposit the amount of such ineligible uses plus imputed interest into the U.S. Dollar Separate Account.

#### **C. Local Currency Uses**

Unlike past cash transfers, the limited funding available in FY96, and the need to provide the GOB with budget

support for its eradication program requires us to minimize local currency generations. For this reason, local currency generations will be limited to 10% of dollar disbursements and deposited to the USAID local currency Trust Fund Account. This Trust Fund partially finances USAID operating and capital costs, including reserves for projected severance and retirement costs of FSNs and contribute to an 18-month reserve for the Mission's FSN salary and other operating costs.

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**ANNEX C**

**ENVIRONMENTAL THRESHOLD DECISION**

Project Location : Bolivia

Project Title : FY 96 ESF  
Counternarcotics Cash  
Transfer Program

Project Number : 511-0639

Activity Funding : \$ million  
(ESF)

Life of Project : 1 year (FY 96)

IEE Prepared by : Mike Yates,  
Environmental Officer  
USAID/Bolivia

Recommended Threshold Decision : Categorical Exclusion

Bureau Threshold Decision : Concur with  
Recommendation

Comments : Categorical exclusion  
under 22 CFR 216.2(c) (1)  
(ii) and 216.2(c) (2)  
(vi) is approved.  
Concurrence subject to  
condition stated in IEE  
and placed in approval  
documents that there will  
be no procurement nor use  
of pesticides without  
first receiving LAC  
Bureau Environmental  
Officer's approval of an  
appropriate Environmental  
Assessment.

\_\_\_\_\_ Date \_\_\_\_\_

Jeffrey Brokaw  
Chief Environmental Officer  
Bureau for Latin America and  
the Caribbean

Copy to : Lewis W. Lucke, Director a.i.  
USAID/Bolivia

Copy to : Mike Yates, Environmental

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