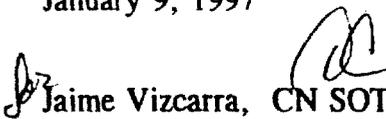


PD-ABP-017  
93773

UNITED STATES GOVERNMENT

**ACTION MEMORANDUM TO THE MISSION DIRECTOR**

DATE: January 9, 1997

REPLY TO  
ATTN OF:  Jaime Vizcarra, CN SOT

PD&I-M- 002/97

SUBJECT: Amendment No. 1 to Balance of Payment (BOP) Cash Transfer Result Package (USAID Activity No. 511-0639)

TO: Frank Almaguer, Director 

Through: Olivier Carduner, PDI Director 

---

**I. Action Requested**

You are requested to approve an amendment of the US\$10 million FY1996 Balance of Payments (BOP) Cash Transfer Results Package (RP) to: 1) increase the planned amount of the cash transfer by US\$19 million, bringing the new approved total to US\$29 million; 2) extend the disbursement period to June 30, 1998; and 3) add new disbursement conditionality applicable to the new funding.

**II. Background**

In June 1996, USAID/Bolivia approved a BOP Cash Transfer Results Package for \$10 million in FY 1996 Economic Support Funds (ESF) under subject activity number. The Cash Transfer Program was designed as a key element in USAID Bolivia's counternarcotics efforts, providing the GOB with necessary resources to offset the cost of meeting joint USG and GOB counternarcotics and law enforcement objectives. USAID and the Government of Bolivia signed the related Cash Transfer Grant Agreement in July 1996. Dollars provided under the Agreement are used to service Bolivia's non-military debt held by the USG and/or multilateral financial institutions. No local currency generations are required. The original Agreement provided for disbursements in two \$5 million tranches; the first tranche was disbursed to the GOB in August 1996 and the second tranche was disbursed in November 1996.

On October 30, 1996, by State 225987, the State Department requested that the Mission develop an amendment to the 1996 Cash Transfer Program to add \$18 million in FY 97 International Narcotics Control Funds (INCF)<sup>1</sup> and provide recommendations on conditionality for disbursement of these new funds, for State and USAID review. On November 8, 1996, via La Paz 06972, the Mission

---

<sup>1</sup> P.L. 104-208 (the FY 1997 Omnibus Appropriations Act) appropriated INCF to the State Department; INCF replaces ESF as the counternarcotics funding account.

proposed a strategy for the amendment and for conditioning disbursements, which is described more fully in Section III below. On November 30, 1996, by State 246429, post was informed that "Dept and USAID agree substantially with the strategy for conditioning the release of FY BOP monies as described in Ref B (La Paz 06972), paras 4, 5, and 6." The cable advised that INL had identified an additional \$1 million in FY 97 monies; bringing the total available for the FY 97 Cash Transfer amendment to \$19 million, to be divided into three tranches of \$4 million, \$7.5 million and \$7.5 million. It also advised that a congressional notification had gone forward on November 25, 1996. (The objection period expired on December 9, 1996.)

On December 13, 1996, State INL, through an interagency agreement executed pursuant to FAA Section 632(a), agreed to transfer \$19 million to USAID during FY 1997 for the purpose of expanding Bolivia's counternarcotics Cash Transfer Program. Although these funds have not yet been received by USAID, an initial tranche of \$11.5 million is expected to be transferred as soon as the OMB apportionment process is complete. The remaining \$7.5 million will be transferred later in FY 1997, subject to satisfactory progress by the GOB in meeting eradication targets.

The above referenced cables and the State-USAID transfer agreement are attached. We are requesting your approval of the present RP Amendment largely on the basis of these documents, as well as the discussion presented below. You will be asked to execute related Grant Agreement Amendments, one for \$11.5 million and a second for \$7.5 million, when funding becomes available to USAID and the Mission.

### **III. Conditionality for Disbursement of Additional Funds**

As proposed by the Mission and accepted by State and USAID, three additional disbursements (beyond the two disbursements already made under the original Agreement) are planned under this RP amendment--an initial tranche of US\$4 million and two subsequent tranches of US\$7.5 million each. Consistent with the Mission's proposal, conditions for release of these funds will focus entirely on GOB eradication efforts. However, as with the FY 1996 Cash Transfer Agreement, the language of the conditions precedent to each disbursement, to be included in the planned Agreement Amendments, will be broadly worded. Formal conditions will be as follows:

- **The third tranche (\$4 million) will be disbursed when the GOB furnishes to USAID evidence of (a) satisfactory progress in achieving net coca eradication during or immediately following the 1996 calendar year, and (b) written commitment to maintain program momentum into 1997 including a systematic campaign to eliminate all new coca and coca seedbeds that can be found in non-traditional areas.**
- **The fourth tranche (\$7.5 million) will be disbursed when the GOB has shown satisfactory progress on meeting eradication targets consistent with Law 1008 during the first six months of 1997.**
- **The fifth tranche (\$7.5 million) will be disbursed when the GOB has shown satisfactory progress on meeting eradication targets consistent with Law 1008 during the last six months of 1997.**

More specific expectations for eradication targets and conditions related to interdiction performance will be transmitted to the GOB through separate communications and documents, consistent with La Paz 06972 and State 246429. Per past practice, the GOB will be required to submit evidence acceptable to the USG demonstrating that conditions have been met. In accordance with the terms of the December 13 State-USAID Transfer Agreement, State via the Embassy La Paz Narcotics Affairs Section shall monitor GOB compliance with all conditions and advise USAID when it deems that disbursement conditions have been met. USAID will therefore have no direct role in monitoring GOB performance.

#### **IV. USAID Strategic Planning Requirements**

ADS 202.5.5a requires that all USAID funded activities be explicitly linked to the achievement of results in an approved results framework. As indicated in the original Results Package (RP) approval document, the Cash Transfer Program has traditionally been linked to the Economic Opportunity Strategic Objective (EO SO) because previous Cash Transfer Programs were designed to address macroeconomic conditionality. While prior Mission management had placed this program under the EO SO, USAID/Bolivia is now in the process of developing a new special objective for counternarcotics related activities. The Cash Transfer Program will become part of this special objective and the related Results Framework, as soon as it is formally constituted and approved by the USAID LAC Bureau. Although the present RP amendment contains only eradication conditionality, we believe the activity will contribute to the achievement of Intermediate Result 1 under the EO SO "Expanded licit income-earning opportunities for the poor", by encouraging Chapare farmers to engage in licit crop cultivation.

#### **V. Results Package Information Requirements**

According to ADS Section E202.5.4a, an RP should include the following seven items of information. These items are discussed below, with references to where more detailed information can be found. An eighth item, "Period of Achievement," 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 to eradicate coca during CY 1996 and 1997 consistent with Bolivian Law 1008.
- 2. Analysis required to approved activities.** The 1996 PAAD and the DAEC cable, combined with the cables referenced above, provide the Mission 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 EO SO and overall USG counternarcotics goals. This program will also directly support the results framework that will be developed for the new counternarcotics special objective.
- 4. Personnel with the knowledge and capacity to deliver results.** Until recently, the EO SOT

**4. Personnel with the knowledge and capacity to deliver results.** Until recently, the EO SOT has had managerial responsibility for the Cash Transfer Program. However, with creation of the new Counternarcotics Special Objective Team (CN SOT) under the leadership of Ray Baum, this responsibility has been transferred to the CN SOT. It is planned that Olivier Carduner, will continue to have overall management responsibility for the program as a member of the CN SOT. Jaime Vizcarra, as the senior FSN Program Management Specialist and member of the CN SOT, will have the day-to-day management responsibility for the program, including coordinating implementation with the Subsecretary of Treasury under the Ministry of Finance. Both officers will closely coordinate the implementation of this program within the CN SOT, and the SOT in turn will ensure proper coordination with the Front Office, and the Embassy.

**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. Mission Local Order 1-16, dated June 7, 1996, further delegates much results package implementation authority to the SO level. It is thus expected that the actual implementation of this activity under the RP amendment will be carried out on the SOT level, with Mission Director approvals, as necessary.

**6. USAID and partner's funding for results achievement.** Subject to the availability of funds for the achievement of the results under this RP Amendment, USAID plans to obligate up to US\$19 million in FY 97 monies for achieving the results outlined in the conditions described above.

**7. Performance monitoring for results achievement.** Monitoring for results achievement under this RP amendment will be carried out by the Embassy Narcotics Affairs Section (NAS). The FSN Program Manager will coordinate with the Subsecretary of Treasury who will provide the official GOB documentation, pertaining to the achievement of the eradication conditions.

**8. Period for results achievement.** Work has already begun towards the achievement of the amended program results and is expected to be completed by December 31, 1997. The Cash Transfer Agreement will be amended to establish a new terminal date of December 31, 1997, for meeting conditions precedent for the future disbursements and for requesting disbursements. The amendment will also establish a new terminal date for making disbursements of June 30, 1998. The additional six month period for making disbursement should provide sufficient time for the USG to analyze data necessary to determine the GOB's compliance with conditions precedent to disbursements.

## **VI. USAID Policy and Regulatory Requirements**

The Initial Environmental Examination, LAC-IEE-96-22, approved by the LAC Bureau Environmental Coordinator on April 29, 1996, established a categorical exclusion for the present activity. This determination is considered applicable to the present amendment.

The statutory assistance checklist prepared for the original FY 96 Cash Transfer Program is still valid. The USAID/Washington Bolivia Desk Officer is currently preparing the FY 97 Bolivia Country Checklist. Bolivia's status under FAA Section 620(q) and other statutory provisions will be confirmed prior to execution of any Grant Agreement Amendment.

## VII. Result Package Documentation

The following documents are added to the RP documentation:

1. This Result Package Amendment Memorandum
2. State 225987, dated 10/30/96 (attached)
3. La Paz 06972, dated 11/8/96 (attached)
4. State 246429, dated 11/30/96 (attached)
5. The Congressional Notification dated 11/25/96.
6. Dept of State/INL to USAID funds transfer agreement dated 12/13/96

## VIII. Authority

You have the authority to approve this Results Package Amendment and to execute the corresponding Grant Agreement Amendment with the Government of Bolivia under ADS 103.5.14b1 and State 246429.

## IX. Recommendation

That by signing in the space provided below, you approve this amendment to the ESF BOP Cash Transfer Result Package (USAID Activity No. 511-0639) to: 1) increase the planned amount of the cash transfer by US\$19 million (bringing the new approved total to US\$29 million); 2) extend the disbursement period through June 30, 1998; and 3) add new disbursement conditionality described above.

Approved: 

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

Date: 1/14/97

Clearances

RLA:PRamsey in draft, 12/27/96

CONT:JBarton in draft 12/30/96

CN SOT Chair: RBAum in draft 12/31/96

DD:BArellano: *BA* date *1/13/97*

drafted:PD&amp;I:JVizcarra-12/9/96;revised:RLA:PRamsey-12/27/96;revised:PDI:OCarduner-1/9/97

h:\pdi\exeles\639\mem\rpaction.2

UNCLAS SECSTATE 225987  
 LAPAZSVA:  
 ACTION: NAU  
 INFO: DEA RSO AID DAO FILES USIS POL DCM ECON AMB

DISSEMINATION: SNAR  
 CHARGE: NAU

VZCZCLP0729  
 OO RUEHLP  
 DE RUEHC #5987 3041628  
 ZNR UUUUU ZZH  
 O 301624Z OCT 96  
 FM SECSTATE WASHDC  
 TO AMEMBASSY LA PAZ IMMEDIATE 9927  
 BT  
 UNCLAS STATE 225987

PLS PASS TO USAID/LAC FOR WTATE, TKELLERMAN

E.O. 12958: N/A  
 TAGS: SNAR, PREL, EALD, BL  
 SUBJECT: 1997 BALANCE-OF-PAYMENTS ASSISTANCE FOR BOLIVIA

REF: (A) LA PAZ 6498, (B) LA PAZ 5367

1. ACTION REQUEST - PARA 6.

2. A/S GELBARD AND AMBASSADOR KAMMAN MET OCTOBER 24 TO DISCUSS, INTER ALIA, THE STATUS OF THE GOB ERADICATION PROGRAM, TIMING ON RELEASE OF THE SECOND TRANCHE OF BALANCE-OF-PAYMENTS (BOP) FUNDS FOR 1996, AND 1997 FUNDING LEVELS FOR BOLIVIA, PARTICULARLY WITH RESPECT TO BOP ASSISTANCE. ALSO PRESENT WERE INL/LP DIRECTOR HALL, ARA/AND NARCOTICS COORDINATOR SMITH, AND INL PROGRAM OFFICER REDGATE.

3. AMBASSADOR KAMMAN EXPLAINED THAT THE GOB WAS NEARING ITS 1996 ERADICATION GOAL OF 6,000 HECTARES OF COCA (ALMOST 5,400 HECTARES OF COCA ERADICATED HAD BEEN VERIFIED AS OF OCTOBER 20) BUT THAT INTERIOR MINISTER SANCHEZ BERZAIN WAS OUT OF MONEY FOR COMPENSATED

ERADICATION AND WAS BEHIND IN PAYMENTS TO THE COCA GROWERS. THE GOB HAS BEEN CARRYING OUT BOTH SEEDBED DESTRUCTION (OVER 35,000 SQ. METERS) AND FORCED ERADICATION OF NEW COCA IN THE CHAPARE. IN ORDER TO RETAIN CREDIBILITY FOR THE PROGRAM, HOWEVER, AND SUSTAIN THE EFFORT THROUGH THE END OF THE YEAR SO AS TO ENSURE A NET REDUCTION OF COCA, THE GOB MUST BE ABLE TO MAKE COMPENSATION PAYMENTS, KAMMAN EXPLAINED.

4. A/S GELBARD INDICATED THAT THE INL BUDGET PLAN FOR BOLIVIA FOR FY 1997, ASSUMING THAT BOLIVIA IS FULLY

*Copy*  
*Urgent to*  
*Frank /*  
*Olivier / Rob / Ray*

CERTIFIED, IS FOR A TOTAL OF USD 50 MILLION. THIS TOTAL INCLUDES BALANCE-OF-PAYMENTS ASSISTANCE AND SUPPORT FOR ALTERNATIVE DEVELOPMENT, ADMINISTRATION OF JUSTICE AND LAW ENFORCEMENT PROGRAMS DURING THE FIRST QUARTER OF FY 1997. (POST'S 1998 COUNTERNARCOTICS AND ANTI-CRIME BUDGET PROPOSAL (REF B) ALSO REFLECTED A NOTIONAL BREAKDOWN FOR 1997 BASED ON THE 50-MILLION-DOLLAR FIGURE, AND CURRENTLY IS THE BASIS FOR DEPARTMENT'S CALCULATIONS REGARDING POST SPENDING.) A/S GELBARD INDICATED THAT THE SANCHEZ DE LOZADA ADMINISTRATION HAD TURNED THE COUNTERNARCOTICS PROGRAM AROUND IN BOLIVIA IN THE LAST TWO YEARS, PARTICULARLY IN TERMS OF THE ERADICATION EFFORT, AND THAT THE DEPARTMENT'S GOAL WAS TO ENSURE THAT IT CONTINUED TO MOVE FORWARD. AMBASSADOR KAMMAN AND A/S GELBARD AGREED THAT PROGRESS BETWEEN NOW AND AUGUST 1997 WAS CRITICAL IN LIGHT OF IMPENDING BOLIVIAN PRESIDENTIAL ELECTIONS, AND THE POTENTIAL FOR BOLIVIAN BACKSLIDING AS A NEW ADMINISTRATION ASSUMES OFFICE.

5. IN THIS LIGHT, A/S GELBARD AGREED TO DESIGNATE USD 18 MILLION OF THE 50 MILLION DOLLAR TOTAL, FY 1997 BUDGET FOR BOP ASSISTANCE. USD 3 MILLION OF THAT TOTAL SHOULD BE PROVIDED TO THE GOB FOR THE FIRST QUARTER OF FY 1997 IF ERADICATION IS SUSTAINED AT THE CURRENT HIGH LEVEL TO ENSURE THAT THE GOB HAS ADEQUATE RESOURCES TO ACHIEVE A NET REDUCTION OF COCA. IN LIGHT OF THE INCREASE IN FUNDING FOR 1997 AS COMPARED WITH 1996, THE ASSISTANCE SHOULD BE CONDITIONED ON THE ERADICATION OF A MINIMUM OF 7,000 HECTARES OF COCA.

6. TO SUPPORT THIS FUNDING DECISION AND THE SPEEDY ALLOCATION OF RESOURCES, DEPARTMENT REQUESTS THAT THE LA PAZ COUNTRY TEAM TAKE THE FOLLOWING ACTIONS:

A) ENSURE THAT ALL USG AND GOB PREPARATIONS HAVE BEEN MADE FOR THE RELEASE OF THE SECOND TRANCHE OF FY 1996 BOP (USD 5 MILLION) TO THE GOB WHEN CONDITIONS HAVE BEEN MET (6,000 HECTARES OF COCA ERADICATED, SATISFACTORY PROGRESS

ON THE DEVELOPMENT OF AN ASSET SEIZURE AND FORFEITURE PROGRAM AND OF DRAFT LEGISLATION AND REGULATIONS ON MONEY LAUNDERING);

B) PROVIDE ASSESSMENT OF GOB PROGRESS TOWARD FULFILLING CONDITIONALITY FOR 1996 BOP;

C) PREPARE, FOR REVIEW BY DEPARTMENT AND USAID, A DRAFT AMENDMENT TO THE CASH TRANSFER PROGRAM FOR USD 18 MILLION FOR FY 1997. REQUEST THAT EMBASSY LA PAZ PROVIDE RECOMMENDATIONS FOR CONDITIONALITY, IN ADDITION TO THE ERADICATION GOAL OF 7,000 HECTARES, FOR THE TRANCED DISBURSEMENT OF FUNDS THROUGH 1997.

7. COMMENT: OUR GOAL IS TO ENSURE THAT THE ERADICATION

*SEC. 1576, USAID*

PROGRAM DOES NOT FALTER DUE TO BUREAUCRATIC DELAYS IN  
RELEASING FUNDS TO THE GOB, PARTICULARLY ONCE THE GOB HAS  
MET THE CONDITIONS FOR THE RELEASE OF 1996 FUNDS. DEPT  
PARTICULARLY APPRECIATES USAID MISSION'S RESPONSIVENESS ON  
THIS FRONT, AND WILL MAKE EVERY EFFORT TO ENSURE THAT  
DEPT/USAID COORDINATION KEEPS PACE WITH EFFORTS IN THE  
FIELD.

CHRISTOPHER

BT

#5987

NNNN

*9*

ROUTINE

UNCLASSIFIED

INCOMING

DEPARTMENT OF STATE  
ARA/NEA REARCS

PAGE 01 OF 02 LA PAZ 06972 00 OF 03 062142Z 009527 5003960  
INFO: XXX(01)

LA PAZ 06972 00 OF 03 062142Z 009527 50639

----- 12/1328Z AJ YV (TOTAL COPIES: 001)  
ACTION: BL (02)

ONCE THAT IS DONE, EVERYTHING IS IN PLACE TO DISBURSE THE SECOND TRANCHE APPROXIMATELY THREE DAYS AFTERWARDS. THE MONEY IS NEEDED TO MAINTAIN THE ERADICATION PROGRAM'S MOMENTUM; IF THE PROGRAM SLOWS DOWN AS THE GOB TURNS ITS ATTENTION TO ELECTIONS, IT MAY PROVE DIFFICULT TO GET ERADICATION BACK ON TRACK.

INFO: BAMB (02) BJ (01) ARA (01) PPC (01) OAS (01) PPA (01)  
EPSC (05)

4. REGARDING THE FY-97 DOP PROGRAM, WE CONSIDER THAT THE FY-96 GOALS, INCLUDING THOSE NOT RELATED TO ERADICATION, WILL HAVE BEEN MET, AND WE DO NOT RECOMMEND INCLUDING NEW CONDITIONS REQUIRING LEGISLATIVE ACTION ON THE MORN OF AN ELECTION YEAR. WE BELIEVE FY-96 CONDITIONALITY WAS EFFECTIVE. THE CONDITIONS THEMSELVES WERE WRITTEN BROADLY BUT CLEARLY, REINFORCING MORE SPECIFIC EXPECTATIONS TRANSMITTED TO THE GOB VIA CONVERSATIONS IN LA PAZ AND WASHINGTON. FOR THAT REASON, AND TO SIMPLIFY THE NEGOTIATION AND IMPLEMENTATION PROCESS, WE PROPOSE THAT THE FY-97 PROGRAM BE AN AMENDMENT TO THE FY-96 PROGRAM. AS ERADICATION IS BOTH THE CENTRAL FOCUS OF OUR STRATEGY AND AS THE CASH TRANSFER PROGRAM SUPPORTS ERADICATION, WE PROPOSE THAT THE CONDITIONALITY ALSO FOCUS ON ERADICATION. WE PREFER THAT GOALS AND CONDITIONS RELATED TO INTERDICTION PERFORMANCE BE BUILT INTO THE LETTERS OF AGREEMENT CONCERNING THE PROVISION OF THE FUNDS FOR PROGRAMS ADMINISTERED BY THE NARCOTICS AFFAIRS SECTION (SUCH AS WE DID IN FY-96) AND NOT INTO THE DOP PROGRAM.

----- 01/1209Z AJ DD (TOTAL COPIES: 014)  
ACTION ARA-00

INFO LOC-00 ACDA-10 ACDE-00 INLB-01 AID-00 CIAE-00 IRL-01  
DEAE-00 OAS-00 DIAT-00 DODE-00 SIPP-00 DS-00 DICO-01  
UTED-00 B-01 TERC-00 IIR-00 JUSE-00 LAB-01 L-00  
ADS-00 H-00 HSAE-00 HSCC-00 OMB-01 PA-00 PW-00  
PRS-00 P-00 CIO-00 SP-00 TRSE-00 USIE-00 PWB-00  
DSCC-00 DRL-00 G-00 /RZTH

5. FOR A USD 10 MILLION DOP PROGRAM, WE RECOMMEND ONE CASH TRANSFER AMENDMENT AND ONE CONGRESSIONAL NOTIFICATION FOR THE FULL AMOUNT. WE PROPOSE THAT THE MONEY BE DISBURSED IN THREE TRANCHEs WITH THE FOLLOWING CONDITIONS:

R 062134Z NOV 96  
FM AMEMBASSY LA PAZ  
TO SECSTATE WASHDC 0916

UNCLAS LA PAZ 006972

INL FOR REDGATE

AID/IAC FOR ANCDONALD, JUEBER

E.O. 12958: N/A  
TAGS: SNAF, FAID, PML, BL  
SUBJECT: 1997 BALANCE-OF-PAYMENTS ASSISTANCE FOR BOLIVIA

REF: STATE 225987

- 1. THIS IS A COUNTRY TEAM CABLE.
- 2. REFTEL REQUESTS LA PAZ ACTION RELATING TO RELEASE OF THE SECOND TRANCHE OF 1996 DOP ASSISTANCE, PROGRESS TOWARD ACHIEVING FY-96 CONDITIONALITY, AND A PROPOSAL FOR THE FY-97 DOP PROGRAM.
- 3. REGARDING CONDITIONS RELATING TO THE SECOND TRANCHE OF FY-96 DOP ASSISTANCE:

-- ERADICATION: BINCO EXPECTS TO ACHIEVE 6,000 HECTARES OF TOTAL ERADICATION ON OR ABOUT NOVEMBER 18. THE VOLUNTARY ERADICATION OPERATION HAS OPERATED SMOOTHLY THROUGHOUT CY-96 WITHOUT NEED FOR EXPENSIVE, LAST-MINUTE CRASH EFFORTS TO REACH TARGETS. SIMILARLY, THE FORCED ERADICATION OF NEW COCA HAS BECOME ROUTINE AND HAS PICKED UP CONSIDERABLE PACE AS CY-96 COMES TO AN END; USE OF HELICOPTERS TO SPOT NEW COCA BEGAN IN SEPTEMBER AND HAS LED TO AN INCREASED RATE OF ERADICATION. THE GOB IS PLANNING TO BEGIN ARRESTING THOSE FOUND WITH NEW COCA AND DESTROYING ALL COCA -- NEW OR MATURE -- THAT BELONGS TO THE NEW COCA'S OWNER; THAT, WE BELIEVE, WILL BE A POWERFUL DISINCENTIVE TO FUTURE PLANTING OF NEW COCA.

-- SEIZED ASSETS: THE SEIZED ASSETS PROGRAM HAS ESTABLISHED ITS REGIONAL OFFICES, CONDUCTED INVENTORIES, HELD ITS FIRST AUCTION, AND -- ONCE PROBLEMS WITH PRESIDING JUDGES ARE RECTIFIED -- IS PREPARED TO CONDUCT ADDITIONAL AUCTIONS.

-- MONEY LAUNDERING: JUSTICE MINISTER BLATTMAN PRESENTED A BILL REVISING THE PENAL CODE, AND INCORPORATING MONEY LAUNDERING LEGISLATION, TO PRESIDENT SANCHEZ DE LOZADA ON NOVEMBER 1. AFTER CONSULTATIONS WITH HIS CABINET, THE PRESIDENT IS EXPECTED TO PASS IT TO THE LEGISLATURE.

ONCE THE 6,000 HECTARE GOAL IS REACHED, WE EXPECT TO BE FORMALLY INFORMED BY THE SECRETARY OF FINANCE THAT THE SECOND TRANCHE CONDITIONS HAVE BEEN MET; WE ARE WORKING WITH EVERYONE INVOLVED

TO ENSURE THAT ALL OF THE NECESSARY CORRESPONDENCE FLOWS RAPIDLY.

4  
1) USD 3 MILLION TO BE AVAILABLE FOR THE FIRST QUARTER OF FY-97

BASED UPON:

- A) SATISFACTORY COMPLIANCE WITH THE CY-96 TARGETS;
- B) THE GOB'S COMMITMENT TO ACHIEVE 7,000 HECTARES OF GROSS COCA ERADICATION IN CY-97; AND
- C) THE GOB'S COMMITMENT TO A CONTINUED, VIGOROUS AND SYSTEMATIC CAMPAIGN TO ELIMINATE ALL NEW COCA AND SEED-BEDS THAT CAN BE FOUND IN NON-TRADITIONAL COCA GROWING AREAS.

2) USD 7.5 MILLION TO BE AVAILABLE:

- A) AFTER 3,500 HECTARES OF COCA HAVE BEEN ERADICATED IN CY-97; AND
- B) THE GOB HAS DEMONSTRATED ITS CONTINUED COMMITMENT TO A SYSTEMATIC CAMPAIGN TO ELIMINATE ALL NEW COCA AND SEED-BEDS THAT CAN BE FOUND IN NON-TRADITIONAL COCA GROWING AREAS.

3) USD 7.5 MILLION TO BE AVAILABLE:

- A) AFTER 7,000 HECTARES OF COCA HAVE BEEN ERADICATED IN CY-97; AND
- B) THE GOB HAS DEMONSTRATED ITS CONTINUED COMMITMENT TO A SYSTEMATIC CAMPAIGN TO ELIMINATE ALL NEW COCA AND SEED-BEDS THAT CAN BE FOUND IN NON-TRADITIONAL COCA GROWING

AREAS.

AS WAS DONE IN FY-96, WE BELIEVE THE CASH TRANSFER AGREEMENT CAN BE WRITTEN WITH LESS SPECIFIC LANGUAGE AND THAT OUR BOTTOM-LINE CONDITIONS CAN BE TRANSMITTED VIA LESS FORMAL MECHANISMS. THE CONDITION ON A CONTINUED CAMPAIGN AGAINST NEW COCA IS FORMULATED

LOOSELY BECAUSE WE HAVE NO REAL-TIME MECHANISM FOR MEASURING, AT THE TIME OF DISBURSEMENT, WHETHER NET ERADICATION HAS ACTUALLY OCCURRED. WHAT WE WANT, OF COURSE, IS SUBSTANTIAL NET ERADICATION. WHAT WE CAN DO IS MAKE IT CLEAR THAT THE NEW COCA CAMPAIGN IS A TOP PRIORITY FOR US AND THAT IT MUST HAVE THE GOB'S FULL SUPPORT. WE INTEND TO PUSH THIS PROGRAM HARD THROUGHOUT 1997 AND CAN USE TO GOOD EFFECT ANY LEVER THAT REQUIRES THE GOB'S

10

DEPARTMENT OF STATE  
ARA/NEA REARCS

PAGE 02 OF 02 LA PAL 06972 00 OF 03 062142Z 009527 5063960

LA PAL 06972 00 OF 03 062142Z 009527

FULL COMMITMENT TO THE PROGRAM.

6. FOR THE FY-97 CASH TRANSFER AGREEMENT AMENDMENT THAT WILL BE SIGNED WITH THE GOB, WE PROPOSE THE FOLLOWING CONDITIONS PRECEDENT LANGUAGE THAT WOULD APPLY TO THE NEW FY-97 FUNDING:

CONDITIONS PRECEDENT FOR \$3 MILLION TRANCHE:  
-SATISFACTORY PROGRESS IN COMPLETING THE GOB'S CY-96 ERADICATION TARGETS AND WRITTEN COMMITMENT TO MAINTAIN PROGRAM MOMENTUM INTO 1997.

CONDITIONS PRECEDENT FOR \$7.5 MILLION TRANCHE:  
-SATISFACTORY PROGRESS ON MEETING ERADICATION TARGETS CONSISTENT WITH LAW 1006 DURING THE FIRST SIX MONTHS OF 1997.

CONDITIONS PRECEDENT FOR \$7.5 MILLION TRANCHE:  
-SATISFACTORY PROGRESS ON MEETING ERADICATION TARGETS CONSISTENT WITH LAW 1006 DURING THE LAST SIX MONTHS OF 1997.

7. FOR THE CONGRESSIONAL NOTIFICATION, WE PROPOSE THE FOLLOWING:

PURPOSE: TO SUPPORT U.S. GOVERNMENT NSGJ AND GOVERNMENT OF BOLIVIA GOB) COUNTERNARCOTICS PROGRAM OBJECTIVES IN BOLIVIA.

BACKGROUND: BOLIVIA IS THE WORLD'S SECOND LARGEST PRODUCER OF COCAINE HYDROCHLORIDE, AND WHILE IT HAS LESS AREA UNDER COCA CULTIVATION THAN EITHER PERU OR COLOMBIA, ITS COCA CROP PRODUCES SIGNIFICANTLY MORE COCAINE ALKALOID THAN COLOMBIA'S. BOLIVIA'S ILLICIT COCA-COCAINE TRADE CORRUPTS DEMOCRATIC INSTITUTIONS AND UNDERMINES LICIT ECONOMIC DEVELOPMENT. COUNTERNARCOTICS PROGRESS AND DEMOCRATIC AND ECONOMIC DEVELOPMENT ARE THE THREE PRINCIPAL USG POLICY GOALS IN BOLIVIA. USG RESOURCES PROVIDED UNDER USAID COUNTERNARCOTICS CASH TRANSFER PROGRAMS SINCE 1990 HAVE HELPED BOLIVIA OFFSET THE COST OF IMPLEMENTING COCA ERADICATION AND OTHER COUNTERNARCOTICS MEASURES. SINCE BOLIVIA INITIATED ITS CURRENT COCA ERADICATION PROGRAM IN 1986, MORE THAN 37,000 HECTARES OF COCA HAVE BEEN ERADICATED NATIONWIDE, OF WHICH 5,693 HECTARES WERE ERADICATED IN 1996 AND 4,971 HECTARES WERE ERADICATED IN THE FIRST NINE MONTHS OF 1996. IN THE COCA-GROWING "CHAMPARE" REGION, LAND DEVOTED TO LICIT CROPS HAS INCREASED BY 11,900 HECTARES SINCE 1993 AND LICIT CROPS NOW TAKE UP TWICE THE CULTIVATED AREA AS COCA. THE SIZE OF TOTAL COCA EXPORTS MEASURED AS A PERCENT OF LEGITIMATE EXPORTS HAS DECLINED FROM AN EXTRAORDINARY 84 PERCENT IN 1986 TO 16.9 PERCENT IN 1995. SIMILARLY, THE SIZE OF THE TOTAL COCA SUB-ECONOMY AS A PERCENTAGE OF THE TOTAL ECONOMY HAS DECREASED FROM 6.5 PERCENT IN 1986 TO 3.4 PERCENT IN 1995.

PROGRAM DESCRIPTION. THIS CASH TRANSFER PROGRAM WAS INITIATED JULY 9, 1996, WITH SIGNATURE OF A GRANT AGREEMENT WITH THE GOB OBLIGATING \$10 MILLION TO SUPPORT 1996 COUNTERNARCOTICS EFFORTS IN THE AREAS OF COCA ERADICATION, ASSETS SEIZURE AND FORFEITURE, AND MONEY LAUNDERING. FROM JANUARY 1 THROUGH JUNE 30, 1996, THE GOB ERADICATED 3,141 HECTARES OF COCA. THIS EXCEEDED THE FIRST SET OF DISBURSEMENT CONDITIONS AND \$5 MILLION WAS DISBURSED. THE

GOB HAS CONTINUED TO MAKE EXCELLENT PROGRESS IN COCA ERADICATION AND DEVELOPMENT OF AN ASSET SEIZURE PROGRAM AND MONEY LAUNDERING LEGISLATION. IT IS ANTICIPATED THAT CONDITIONS FOR DISBURSEMENT OF THE SECOND \$5 MILLION TRANCHE WILL BE MET BY MID-NOVEMBER. THESE DISBURSEMENTS PROVIDE CRITICAL BUDGETARY SUPPORT TO THE GOB TO OFFSET THE BUDGETARY COSTS AND ECONOMIC IMPACT OF ITS COCA ERADICATION PROGRAM AND RELATED COUNTERNARCOTICS EFFORTS. THE COST TO THE GOB OF MEETING THIS YEAR'S CONDITIONS IS ESTIMATED TO RANGE FROM \$16 TO \$20 MILLION. THE ADDITIONAL \$18 MILLION PROPOSED FOR OBLIGATION IN FY 97 WILL PROVIDE THE FINANCIAL SUPPORT NECESSARY FOR THE GOB TO MAINTAIN ITS CURRENT MOMENTUM INTO 1997. BECAUSE OF UPCOMING PRESIDENTIAL ELECTIONS IN JUNE 1997, IT IS CRITICAL THAT THESE FUNDS BE PROVIDED AS SOON AS

POSSIBLE IN ORDER TO MAINTAIN MOMENTUM AS POLITICS BEGINS TO ABSORB THE GOB'S ATTENTION. ADDITIONAL DISBURSEMENTS WILL BE PROVIDED AS ADDITIONAL PROGRESS IS MADE CONSISTENT WITH THE ANNUAL ERADICATION GOALS ESTABLISHED BY BOLIVIAN LAW 1006. DOLLARS DISBURSED TO THE GOB ARE USED FOR PAYMENT OF NON-MILITARY BILATERAL AND MULTILATERAL DEBT, AND LOCAL CURRENCY GENERATIONS ARE PLANNED.

RELATIONSHIP OF PROJECT TO USAID STRATEGY: THE CASH TRANSFER WILL SUPPORT OVERALL USG OBJECTIVES OF: (1) A STABLE DEMOCRATIC GOVERNMENT; (2) PROMOTION OF SUSTAINABLE BROAD-BASED ECONOMIC

GROWTH; AND (3) NARCOTICS CONTROL.

BENEFICIARIES: THE GOVERNMENT OF BOLIVIA WILL DIRECTLY BENEFIT FROM THIS PROGRAM AS DOLLARS DISBURSED TO THE GOB WILL HELP IT ACHIEVE DEFICIT REDUCTION TARGETS AGREED TO WITH THE IMF.

BOLIVIANS WILL BENEFIT BECAUSE A STRONGER COUNTERNARCOTICS PROGRAM, COMPLEMENTED BY USG-FUNDED ALTERNATIVE DEVELOPMENT ACTIVITIES, LEADS TO MORE SUSTAINABLE LICIT ECONOMIC DEVELOPMENT AND STRONGER DEMOCRATIC INSTITUTIONS.

HOST COUNTRY AND OTHER DONORS: THE GOB WILL MAINTAIN OVERALL MANAGEMENT RESPONSIBILITY FOR DEVELOPING AND IMPLEMENTING THE COUNTRY'S COUNTERNARCOTICS STRATEGY. THE STRATEGY WILL BE IMPLEMENTED THROUGH THE DIRECT AND INDIRECT INVOLVEMENT OF A VARIETY OF GOB AGENCIES. THE UNITED NATIONS DRUG CONTROL PROGRAM, THE EUROPEAN UNION AND THE GERMAN BILATERAL AID PROGRAM ALL PROVIDE SIGNIFICANT SUPPORT TO THE GOB'S COUNTERNARCOTICS AND ALTERNATIVE DEVELOPMENT EFFORTS.

RESULTS: I. PROGRESS ON MEETING ERADICATION TARGETS AS CONSISTENT WITH LAW 1006; BOLIVIA'S BASIC COUNTERNARCOTICS LEGISLATION, ADDITIONAL FUNDING PROVIDED THROUGH THIS AMENDMENT WILL PROVIDE SUPPORT TO CONTINUE ERADICATION EFFORTS DURING CY 1997. THE FOLLOWING TWO RESULTS WERE ACHIEVED WITH DISBURSEMENT OF FY-96 FUNDING: II. 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 COUNTERNARCOTIC EFFORTS. III. PROGRESS IN DRAFTING A LAW TO MAKE MONEY LAUNDERING ILLEGAL AND DEVELOPING THE NECESSARY REGULATIONS AND IMPLEMENTING CAPACITY TO ENFORCE THIS LAW.

8. USE OF DOLLARS AND LOCAL CURRENCY GENERATION: DOLLARS DISBURSED UNDER THIS PROGRAM WILL BE USED BY THE GOB TO PAY BILATERAL AND MULTILATERAL NON-MILITARY DEBT. FOR THE SAME REASONS DESCRIBED ON PAGE 12 (SECTION V.C.) OF THE ORIGINAL CASH TRANSFER PROPOSAL DOCUMENT (PAAD), NO LOCAL CURRENCY GENERATION

WILL BE REQUIRED.

9. UPON RECEIPT OF WASHINGTON'S APPROVAL OF THIS PROPOSAL, USAID/BOLIVIA WILL EXECUTE AN AMENDMENT OF THE FY-96 CASH TRANSFER PROGRAM DOCUMENTATION AND TO THE PROGRAM AGREEMENT WITH THE GOB. BOTH OF THESE AMENDMENTS WILL BE APPROVED BY THE USAID/DIRECTOR PER AA/LAC DELEGATIONS OF AUTHORITY. PLEASE CONFIRM THIS AUTHORITY. KAPPA

UNCLASSIFIED

Printed By: Glenn W. Smith

ORIGIN INL-01

INFO	LOG-00	INLB-01	AID-00	AMAD-01	ARA-01	CIAE-00	DEAE-00
	GASY-00	OINT-00	DOOE-00	SRPP-00	DS-00	OIGO-01	UTED-00
	M-01	TEDE-00	INR-00	JUSE-00	L-01	ADS-00	M-00
	NSAE-00	NSCE-00	ONB-01	PA-00	PH-00	PRS-00	P-00
	CIO-00	SP-00	SS-00	TRSE-00	USIE-00	PHB-00	DSCC-00
	DRL-09	G-00	/017R				

246429

SOURCE: KODAKC.300012

DRAFTED BY: INL/LP:KREDGATE:JMR

APPROVED BY: INL:JEBECKER

ARA:PRONERO

INL/LP:PHALL

AID/LAC:TKELLERMAN

G:DANIES

L/LEI:PBIRDOSA

INL/RM:RECACHINAS

DESIRED DISTRIBUTION:

INL, ARA, G, L/LEI, USAID/LAC

816C00 300216Z /30

Q 300216Z NOV 96

FM SECSTATE WASHDC

TO AMEMBASSY LA PAZ IMMEDIATE

UNCLAS STATE 246429 ✓

E.O. 12958: N/A

TAGS: SMAR, EALD, PREL, BL

SUBJECT: CONDITIONALITY FOR 1997 BALANCE OF PAYMENTS ASSISTANCE TO BOLIVIA

REF: A) STATE 22597  
 B) LA PAZ 6972  
 C) STATE 233686  
 D) LA PAZ 7012

1. DEPARTMENT AND USAID CONCUR WITH RELEASE OF REMAINING USD 5 MILLION IN 1996 BALANCE-OF-PAYMENTS (BOP) ASSISTANCE ONCE THE 6,000-HECTARE ERADICATION AGREEMENT IS MET, BASED ON EMBASSY LA PAZ ASSESSMENT (REF 8) OF BOLIVIA'S PROGRESS TOWARD MEETING CONDITIONS SET FORTH IN OUR AGREEMENT WITH THE GOB.

2. WITH REGARD TO THE FY-97 BOP PROGRAM, INL HAS IDENTIFIED AN ADDITIONAL USD 1 MILLION IN FUNDING FOR THE BOLIVIA PROGRAM WHICH CAN BE MADE AVAILABLE FOR THE BOP PROGRAM. THIS WILL BRING THE TOTAL OF THE FY-97 CASH TRANSFER AMENDMENT TO USD 19 MILLION (TO BE DIVIDED INTO THREE TRANCHES OF USD 4 MILLION AND TWO OF 7.5 MILLION EACH).

3. DEPT AND USAID AGREE SUBSTANTIALLY WITH THE STRATEGY FOR CONDITIONING THE RELEASE OF FY-97 BOP MONIES AS DESCRIBED IN REF B, PARAS 4, 5 AND 6. A SINGLE NOTIFICATION OF THE ENTIRE AMOUNT OF USD 19 MILLION WAS FORWARDED TO CONGRESS MONDAY, NOVEMBER 25. MINOR REVISIONS HAVE BEEN MADE TO THE PROPOSED TEXT OF THE CONGRESSIONAL NOTIFICATION (COORDINATED VIA FAX WITH USAID AND HAS LA PAZ).

4. DEPARTMENT'S ONLY SUBSTANTIVE DIFFERENCE WITH EMBASSY LA PAZ APPROACH PERTAINS TO CONDITIONALITY FOR THE RELEASE OF THE FIRST TRANCHE OF FY-97 MONEY (USD 4 MILLION). DEPT UNDERSTANDS THAT THE USD 10 MILLION IN FY-96 BOP ASSISTANCE REPRESENTED ONLY A PORTION OF WHAT THE GOB HAS SPENT ON COMPENSATED ERADICATION THIS YEAR. FOR THIS REASON, DEPARTMENT AND THE EMBASSY REPEATEDLY URGED THE GOB BOTH TO REDUCE THE PER-HECTARE COMPENSATION

UNCLASSIFIED

BEST AVAILABLE COPY

UNCLASSIFIED

Printed By: Glenn M. Smith

LEVEL AND TO EXPAND ITS NEW COCA ERADICATION EFFORTS. IN ORDER TO PRODUCE A SUBSTANTIAL NET REDUCTION OF COCA — A KEY OBJECTIVE FOR CERTIFICATION. WHILE WE APPRECIATE THAT RELEASE OF THE MONIES TO THE GOB PRIOR TO THE END OF CY-96 WOULD BE ADVANTAGEOUS FOR A NUMBER OF REASONS, OUR PROVISION OF CONTINUED HIGH LEVELS OF DOP ASSISTANCE TO THE GOB MUST BE LINKED TO THE GOALS ESTABLISHED FOR CERTIFICATION IF THAT PROCESS IS GOING TO RETAIN CREDIBILITY.

5. AS NOTED IN PARA 1, THE SECOND TRANCHE OF USD 5 MILLION IN FY-96 MONIES WAS RELEASED TO THE GOB UPON THE SUCCESSFUL ACHIEVEMENT OF ITS ERADICATION TARGET OF 6,000 HECTARES. WHILE THIS ERADICATION LEVEL IS CONSISTENT WITH BOLIVIAN LAW 1008, AND IS A MAJOR ACHIEVEMENT FOR THE GOB, REF (C) MAKES CLEAR THAT THIS ERADICATION ALONE WILL NOT PRODUCE A SUBSTANTIAL NET REDUCTION OF COCA. WE ARE ENCOURAGED BY THE NEWS OF THE GOB'S RAPID EXPANSION OF THE ERADICATION EFFORT (REF D), BUT FEEL STRONGLY THAT THE RELEASE OF FY-97 MONIES SHOULD NOT BEGIN UNTIL THAT EFFORT PRODUCES A SUBSTANTIAL NET REDUCTION OF COCA.

6. DEPARTMENT SUPPORTS THE FOLLOWING CONDITIONS FOR THE RELEASE TO THE GOB OF USD 4 MILLION FOR THE FIRST QUARTER OF FY-97:

A) SUCCESSFUL NET REDUCTION OF OVERALL COCA CULTIVATION BY 1,000 HECTARES, BASED UPON THE 1996 COCA CULTIVATION ESTIMATE (REF C);

B) GOB COMMITMENT TO ACHIEVE 7,000 HECTARES OF GROSS COCA ERADICATION IN CY-97;

C) THE GOB'S COMMITMENT TO A CONTINUED, VIGOROUS AND SYSTEMATIC CAMPAIGN TO ELIMINATE ALL NEW COCA AND SEEDBEDS THAT CAN BE FOUND IN NON-TRADITIONAL COCA GROWING AREAS.

7. IF A NET REDUCTION OF 1,000 HECTARES IS NOT PRODUCED BY DECEMBER 31, 1996, ERADICATION IN EARLY 1997 WILL BE ADDED TO THE 1996 TOTAL UNTIL THE TARGET HAS BEEN REACHED TO DETERMINE TIMING FOR THE RELEASE OF THE FIRST TRANCHE OF FY-97 FUNDS.

8. ALL ERADICATION FROM JANUARY 1 - DECEMBER 31, 1997, HOWEVER, WILL BE REFLECTED IN 1997 TOTALS FOR THE PURPOSES OF THE 1997 COCA CULTIVATION ESTIMATE AND FOR THE 1997 ERADICATION TARGETS. IN ADDITION, DEPARTMENT IS CONSIDERING ESTABLISHING A FIXED TARGET FOR NET REDUCTION AS PART OF THE 1997 CERTIFICATION PROCESS.  
CHRISTOPHER

*1000 net  
7000 gross*

BEST AVAILABLE COPY

UNCLASSIFIED

*13*

AGENCY FOR INTERNATIONAL DEVELOPMENT  
ADVICE OF PROGRAM CHANGE

NOV 25 1996

Country : Bolivia  
Project Title : Counternarcotics Cash Transfer Program  
Project Number : 511-0639  
FY 1997 CP Reference : None  
Appropriation Category : International Narcotics Control  
Life-of-Project Funding : \$10,000,000 (ESF)  
\$19,000,000 (INC)  
Intended FY 1997 Obligation : \$19,000,000 (INC)

This is to advise that USAID plans to obligate \$19,000,000 of International Narcotics Control funds in FY 1997 for the Counternarcotics Cash Transfer Program. The total life-of-project funding is \$29,000,000 over two years (FY 1996-1997).

The \$29 million is available to support the U.S. Government's International Drug Control Strategy in Presidential Decision Directive 14 (PDD-14), which places increased emphasis on efforts to control drug production in source countries. A Congressional Notification is required because this is an additional cash transfer activity which was not previously notified. The purpose is to support U.S. Government (USG) and Government of Bolivia (GOB) counternarcotics program objectives in Bolivia. This project will be managed by USAID/Bolivia in coordination with the U.S. Embassy Country Team in Bolivia.

Annex: Activity Data Sheet

BEST AVAILABLE COPY

0

14

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
ACTIVITY DATA SHEET**

CP 81-05 (4-83)

**PROGRAM: Bolivia**

<b>TITLE</b> Counter narcotics Cash Transfer Program		<b>FUNDING SOURCE</b> INC ESF	<b>PROPOSED OBLIGATION (in thousands of dollars)</b> FY 97 19,000	<b>LIFE OF PROJECT (Moth.)</b> 29,000
<b>NUMBER</b> 11-0419	<b>LOAN</b> <input type="checkbox"/>	<b>NEW</b> <input type="checkbox"/>	<b>CONTINUING</b> <input type="checkbox"/>	<b>PRIOR REFERENCE</b> APC 235 June 5, 1994
<b>GRANT</b> <input checked="" type="checkbox"/>			<b>INITIAL OBLIGATION</b> FY 96	<b>ESTIMATED FORMAL OBLIGATION</b> FY 97
				<b>ESTIMATED COMPLETION DATE OF PROJECT</b> FY 98

**PURPOSE:** To support U.S. Government (USG) and Government of Bolivia (GOB) counter narcotics program objectives in Bolivia.

**BACKGROUND:** Bolivia is the world's second largest producer of cocaine hydrochloride. Bolivia's illicit coca-cocaine trade corrupts democratic institutions and undermines licit economic development. Counter narcotics progress and democratic and economic development are the three principal USG policy goals in Bolivia. USG resources provided under USAID counter narcotics cash transfer programs since 1996 have helped Bolivia offset the cost of implementing coca eradication and other counter narcotics measures. A total of 5,513 hectares of coca were eradicated in 1995 and 5,700 hectares were eradicated in the first ten months of 1996. This eradication has been combined with a sustained campaign to reduce and prevent new plantings. In the coca growing "Chapare" region, land devoted to licit crops has increased by 11,999 hectares since 1991 and licit crops now take up twice the cultivated area as coca. The size of total coca exports measured as a percent of legitimate exports has declined from an extraordinary 84 percent in 1988 to 16.9 percent in 1995. Similarly, the size of the total coca sub-economy as a percentage of the total economy has decreased from 8.5 percent in 1988 to 3.4 percent in 1995.

**PROGRAM JUSTIFICATION:** This cash transfer program was initiated July 2, 1996, with a \$10 million grant to GOB to support 1996 counter narcotics efforts in the areas of coca eradication, asset seizure and forfeiture, and money laundering. From January 1 through June 30, 1996, the GOB eradicated 3,141 hectares of coca. This exceeded the first set of disbursement conditions and \$5 million was disbursed. The GOB has continued to make excellent progress in coca eradication and development of an asset seizure program and money laundering legislation. Conditions for disbursement of the second \$5 million were met by mid-November. These disbursements provide critical budgetary support to the GOB to effect the monetary costs and economic impact of its coca eradication program and related counter narcotics efforts. The cost to the GOB of meeting this year's conditions is estimated to range from \$16 to \$20 million. The additional \$19 million proposed for obligation in FY 97 will provide the financial support necessary for the GOB to maintain its current momentum into 1997. Because of upcoming Presidential elections in June 1997, it is critical that these funds be provided

as soon as possible in order to maintain momentum as politics begins to absorb the GOB's attention. Additional disbursements will be provided as additional progress is made consistent with the annual eradication goals established by Bolivian Law 1008. Dollars disbursed to the GOB are used for payment of non-military bilateral and multilateral debt. No local currency will be generated.

**Relationship of Project to USAID STRATEGY:** The cash transfer will support overall USG objectives of: (1) narcotics control; (2) promotion of sustainable broad-based economic growth; and (3) a stable democratic government.

**Beneficiaries:** The Government of Bolivia will directly benefit from this program as dollars disbursed to the GOB will help it achieve deficit reduction targets agreed to with the IMF. Bolivians will benefit because a stronger counter narcotics program, complemented by USG-funded alternative development activities, leads to more sustainable licit economic development and stronger democratic institutions.

**Host Country and Other Needs:** The GOB will maintain overall management responsibility for developing and implementing the country's counter narcotics strategy which is implemented through the direct and indirect involvement of a variety of GOB agencies. The United Nations Drug Control Program, the European Union and the German bilateral aid program all provide significant support to the GOB's counter narcotics and alternative development efforts.

**Results:** Progress on meeting eradication targets as consistent with Law 1008, Bolivia's basic counter narcotics legislation. Additional funding provided through this amendment will provide support to continue coca reduction efforts during CY 1997. The following two results were achieved with disbursement of FY 96 (under): 1) 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 counter narcotics efforts; and 2) Progress in drafting a law to make money laundering illegal and developing the necessary regulations and implementing capacity to enforce this law.

U.S. FINANCING (in thousands of dollars)			PRINCIPAL CONTRACTORS OR AGENCIES	
	Obligations	Expenditures	Government of Bolivia (GOB) Ministry of Finance	
Through September 30, 1996	0	0		
Estimated Fiscal Year 1996	10,000	1,000		
Estimated Through September 30, 1996	10,000	1,000		
Proposed Fiscal Year 1997	19,000	0	Estimated Total Cost	29,000



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

*Oliver*  
*7A*

*704*

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523



OFFICE OF SOUTH AMERICAN AND MEXICAN AFFAIRS  
(USAID/LAC/SAM)

FAX MESSAGE

DATE: December 14

TO: Frank Almaguer, Mission Director  
Oliver Cardenas, Chief, PDO

FAX#: USAID/BOLIVIA

TELEPHONE: (PLEASE PASS QUICKLY  
TO INDIVIDUALS -  
THANK YOU)

NUMBER OF PAGES: 2  
(EXCLUDING THIS COVER SHEET)

FROM: Tom Kellermann, LAC Narr Coordr.

TELEPHONE: (202) 647-1006

FAX: (202) 647-4790

REMARKS: Attached is final memo of  
agreement between STATE and  
USAID to transfer funds to us  
for CN Cash Transfer program for  
Bolivia. This one contains  
Amb. Gelbard's approval as well.  
Copies have also been provided to all  
other key STATE/USAID offices

Office DIC  
Rec'd By R. Bailey  
Date 12/16 Hour 9:45

MEMORANDUM OF AGREEMENT

BETWEEN

THE DEPARTMENT OF STATE

AND

THE UNITED STATES AGENCY OF INTERNATIONAL DEVELOPMENT

TO TRANSFER FUNDS

Pursuant to Sections 481-490 and 632(a) of the Foreign Assistance Act of 1961, as amended ("FAA"), and the Foreign Operations, Export Financing and Related Programs Act, 1997, enacted as part of P.L. 104-208, the Department of State ("State") hereby agrees to transfer to the United States Agency for International Development ("USAID") the sum of Nineteen Million Dollars (\$19,000,000) in funds appropriated to the Department of State by P.L. 104-208 for International Narcotics Control ("INC") or otherwise available to STATE for the same purpose, in order to carry out a counternarcotics cash transfer program for Bolivia. The initial transfer will be made in the amount of \$11.5 million. The balance of \$7.5 million will be transferred during FY 1997 as agreed to between STATE and USAID, subject to satisfactory progress by the Government of Bolivia in meeting eradication targets.

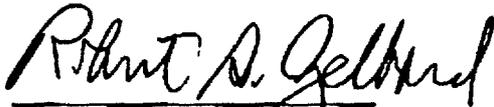
This transfer is made under the following terms and conditions:

1. In coordination with STATE, USAID shall obligate these funds in a cash transfer agreement with the Government of Bolivia ("GOB"), substantially similar to cash transfer ("CT") agreements executed by USAID with the GOB in prior fiscal years utilizing funds appropriated for the Economic Support Fund ("ESF"). The counternarcotics conditionality for such CT agreement shall be that stated in 96 La Paz 6972 (8 November 1996), and 96 STATE 246429 (30 November 1996), or subsequent cables. The CT agreement, or other documents, shall include specific eradication targets to achieve a minimum of 7,000 hectares of coca eradication and commitment to a sustained new coca destruction program. These funds are available for obligation and expenditure for the purposes for which appropriated, under authorities governing USAID activities under the FAA, and must be obligated no later than August 31, 1997. Any funds not obligated by August 31, 1997, shall be expeditiously returned to STATE.

2. Upon execution of this agreement, STATE shall transfer \$11,500,000 from STATE Account no. 191171022.2 to AID Account no. 726/71037 by an SF-1151 (Treasury Department Non-Expenditure Transfer Authorization) or other appropriate mechanism. AID shall keep full and accurate records and accounts with respect to the obligation and disbursement of the funds hereby transferred under procedures utilized by USAID to account for similar CT agreements which have been ESF-funded. USAID shall perform such audits of the books and records related to the CT Agreement as may be required by generally accepted U.S. Government auditing standards.

3. STATE, via the Embassy La Paz Narcotics Affairs Section, shall monitor GOB compliance with all conditions and advise USAID when it deems that disbursement conditions have been met. USAID shall provide STATE with any information and documentation that STATE may request from time to time regarding disbursements under the CT Agreement.

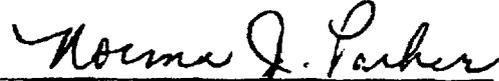
DEPARTMENT OF STATE



Robert S. Gelbard  
Assistant Secretary  
Bureau for International  
Narcotics and Law Enforcement

Date Dec. 13, 1996

UNITED STATES AGENCY FOR  
INTERNATIONAL DEVELOPMENT



Norma J. Parker  
Acting Assistant Administrator  
Bureau for Latin America and  
the Caribbean

Date December 13, 1996

**MEMORANDUM OF AGREEMENT**  
**BETWEEN**  
**THE DEPARTMENT OF STATE**  
**AND**  
**THE UNITED STATES AGENCY OF INTERNATIONAL DEVELOPMENT**  
**TO TRANSFER FUNDS**

Pursuant to Sections 481-490 and 632(a) of the Foreign Assistance Act of 1961, as amended ("FAA"), and the Foreign Operations, Export Financing and Related Programs Act, 1997, enacted as part of P.L. 104-208, the Department of State ("State") hereby agrees to transfer to the United States Agency for International Development ("USAID") the sum of Nineteen Million Dollars (\$19,000,000) in funds appropriated to the Department of State by P.L. 104-208 for International Narcotics Control ("INC") or otherwise available to STATE for the same purpose, in order to carry out a counternarcotics cash transfer program for Bolivia. The initial transfer will be made in the amount of \$11.5 million. The balance of \$7.5 million will be transferred during FY 1997 as agreed to between STATE and USAID, subject to satisfactory progress by the Government of Bolivia in meeting eradication targets.

This transfer is made under the following terms and conditions:

1. In coordination with STATE, USAID shall obligate these funds in a cash transfer agreement with the Government of Bolivia ("GOB"), substantially similar to cash transfer ("CT") agreements executed by USAID with the GOB in prior fiscal years utilizing funds appropriated for the Economic Support Fund ("ESF"). The counternarcotics conditionality for such CT agreement shall be that stated in 96 La Paz 6972 (8 November 1996), and 96 STATE 246429 (30 November 1996), or subsequent cables. The CT agreement, or other documents, shall include specific eradication targets to achieve a minimum of 7,000 hectares of coca eradication and commitment to a sustained new coca destruction program. These funds are available for obligation and expenditure for the purposes for which appropriated, under authorities governing USAID activities under the FAA, and must be obligated no later than August 31, 1997. Any funds not obligated by August 31, 1997, shall be expeditiously returned to STATE.

2. Upon execution of this agreement, STATE shall transfer \$11,500,000 from STATE Account no. 121171022.2 to AID Account no. 726/71037 by an SF-1151 (Treasury Department Non-Expenditure Transfer Authorization) or other appropriate mechanism. AID shall keep full and accurate records and accounts with respect to the obligation and disbursement of the funds hereby transferred under procedures utilized by USAID to account for similar CT agreements which have been ESF-funded. USAID shall perform such audits of the books and records related to the CT Agreement as may be required by generally accepted U.S. Government auditing standards.

3. STATE, via the Embassy La Paz Narcotics Affairs Section, shall monitor GOB compliance with all conditions and advise USAID when it deems that disbursement conditions have been met. USAID shall provide STATE with any information and documentation that STATE may request from time to time regarding disbursements under the CT Agreement.

DEPARTMENT OF STATE

UNITED STATES AGENCY FOR  
INTERNATIONAL DEVELOPMENT

Robert S. Gelbard  
Assistant Secretary  
Bureau for International  
Narcotics and Law Enforcement

Norma J. Parker  
Norma J. Parker  
Acting Assistant Administrator  
Bureau for Latin America and  
the Caribbean

Date \_\_\_\_\_

Date December 13, 1976

CLEARANCE PAGE

DEPARTMENT OF STATE

INL/P, <sup>7811</sup> K. Redgate *[Signature]* DATE 12/10/96  
INL/C, <sup>50</sup> M. Ryan *[Signature]* DATE 12-10-96  
ARA/AND, <sup>7811</sup> T. Torrance *[Signature]* DATE 12/12  
ARA/ECP B. Muskovitz *[Signature]* DATE 12-21-96  
PMP, P. Lattice *[Signature]* DATE 12-13-96

AGENCY FOR INTERNATIONAL DEVELOPMENT

LAC/SPM, J. Weber *[Signature]* DATE 12/12/96  
LAC/DPB, R. Meehan *[Signature]* DATE 12/12/96  
LAC/SAM, F.W. Tate *[Signature]* DATE 12/12/96  
GC/LAC, S. Allen *[Signature]* DATE 12/11/96  
M/B, R. Nygard *[Signature]* DATE 12/12/96  
M/FM/CR, J. Miller *[Signature]* DATE 12/12/96  
DAA/LAC, E. Zalman *[Signature]* DATE 12/13/96

CC: Tony Chavez, OMB

U: \SAMPUB\DOCS\MOU