

From: [REDACTED]
Date: Thu, 21 May 2009 17:05:27 -0500
To: Teo Ballve <teo@nacla.org>
Subject: USAID Response to your questions

Teo,

As agreed, see below our response to the questions you raised regarding Gradesa, an African oil palm processing company, and Cooprogrosur, a small producers/growers association established in Sur de Bolívar, both sub-grantees of the USAID-funded Colombia Agribusiness Partnership Program (CAPP) and Más Inversión para el Desarrollo Alternativo (MIDAS) project.

USAID assistance in the palm sector, as well as within other agricultural sectors, is targeted toward the small landholders and small farmers (campesinos) not to the processing firms. It is important to underscore that the rationale for USAID supporting small African oil palm growers in spite of the social issues associated with this crop is that without our support these farmers would have weaker ability to negotiate fair alliances with the industrial processors. Without our support, small African oil palm holders are at higher risk of inequities.

Gradesa:

As mentioned during our last interview, USAID had no knowledge of the legal case surrounding Carlos Alberto Zuñiga Caballero and Antonio Nel Zuñiga Caballero and their relationship with the Gradesa company. The due diligence procedures conducted by ARD Inc. - USAID contractor for the CAPP and MIDAS projects - in 2003 and 2007 did not identify Gradesa as being part of any illicit activity. USAID remains unaware of any failure on the part of our contractors to comply with USAID's guidance regarding the "Prohibition of Assistance to Traffickers," which is found in Chapter 206 of USAID's Automated Directives Service ("ADS 206"). See link: <http://www.usaid.gov/policy/ads/200/206.pdf>

At the time that the due diligence on Gradesa was completed in compliance with ADS 206, no red flags were raised. In a recent communication with ARD, the Gradesa Manager indicated that the shares that the Zuñiga brothers allegedly owned had been seized by Colombian Government's Dirección Nacional de Estupefacientes (DNE). The DNE replaced the name(s) on the Santa Marta Commercial Registry with the names of two DNE employees. The current Commerce Registry continues to include the names of the two DNE employees

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members of Gradesa's board of directors; however, they are not identified as DNE employees and their names, along with the rest of the company's ownership structure, came up as clean during the due diligence process conducted in 2007. Given that none of the actual names of shareholders, investors, or managers on the Commercial Registry at the time were under investigation, there did not appear to be any reason for USAID to have been concerned. Furthermore, given that no local government, community, and/or private sector officials notified ARD Inc. or USAID of the pending Zuñiga brothers' case during project design and due diligence processes, there was no way that USAID could have been aware of the link between Gradesa and the Zuñiga investigation.

That said, it is important to underscore that the ADS 206 due diligence process is designed to ensure that no USAID funding benefits illegal actors. While U.S. laws and regulations do not require USAID to screen every shareholder of a public or privately-held corporation, the regulations do require any individual recipient of more than \$100,000 funds to be screened. See ADS 206.3.7(b). The Zuñiga brothers do not qualify as "recipients."

In the case of Gradesa, USAID maintains that no illegal activities, organizations, or persons have benefited from the USAID project. Nevertheless, USAID appreciates your bringing this case to our attention and will pay close attention to the developments of the court case. USAID will take any actions that may be appropriate if the Zuñiga brothers are found to be guilty.

Cooproagrosur:

The Agrarian Promotional Cooperative for the Substitution of Illicit Crops in the South of Bolivar, aka "Cooproagrosur", is a growers association that was established in September 3, 2002, as a limited liability company governed under the principles of Colombia's cooperative regulations, which means that the members of the cooperatives (i.e., the workers) are the owners of the firm. USAID assistance for the planting and maintenance of 400 new hectares of African oil palm trees benefiting 100 families began under the CAPP program and was shifted to MIDAS in 2006. The project was signed on December 1, 2004 and completed on August 30, 2007. Each grower-family involved in the project paid COP\$ 6 million into the cooperative in 2002, which was used for land purchase and the establishment of nurseries. USAID budgeted COP\$371,047,150 for this activity through the CAPP program for technical assistance and financial costs. However, only \$COP 228,570,631 of assistance was provided to the beneficiary families members of the cooperative. The remaining funds (COP\$142,476,519) were not utilized and were returned to USAID. Other institutions also supporting

COOPROAGROSUR in this effort were FINAGRO, Banco Agrario, FIDUAGRARIA, and Palmeras Puerto Wilches.

A verification of key participants' non-involvement with illegal activities was completed for Cooprogrosur through the Specially Designated Nationals and Blocked Persons List (SDNBP). Cooprogrosur also provided supporting documentation for the 100 member growers certifying their non-involvement in illicit activities. Carlos Mario Jiménez Naranjo, alias "Macaco", did not appear on the list of the 100 'cleared' owner/beneficiary families involved in the project and Cooprogrosur. From the standpoint of USAID's involvement in the activity at that time, it was irrelevant whether or not Macaco was on the SDNBP - because he was not involved in the project.

The following are the answers to your specific questions on Cooprogrosur.

Q: Has Coprogrosur received additional USAID funds beyond the original amount (\$161,000) slated?

A: No, and in fact, part of that funding was not used and was returned to USAID.

Q: Is the Coprogrosur project still active?

A: No, the project was completed on August 30, 2007.

Q: When Coprogrosur received USAID funding in Dec. 2004, the land and assets of the cooperative were owned by the paramilitary chief known as Macaco, which would indicate that a paramilitary narco trafficker was the recipient of a grant under Plan Colombia.

A: No. Macaco is not listed as one of the 100 beneficiaries/owners of the cooperative. The cooperative purchased 912 hectares of farmland composed of 3 different holdings next to each other, Rancho San Judas, El Amparo, and Vista Hermosa for which they had to have had a clean title to the land to qualify for Banco Agrario credit, which in turn was a prerequisite for USAID-CAPP funding.

Q: Why did ARD/USAID's "due diligence" process fail to turn up this information at the time?

A: It did not fail. Macao was not listed as one of the owners of the cooperative - only the 100 families were.

Please attribute this to "U.S. Embassy Official".

Regards,

[REDACTED]

Information and Communications Specialist
USAID | COLOMBIA

Ph.: [REDACTED]

Fax: [REDACTED]