

**MEMORANDUM OF AGREEMENT ON AN
UPLAND MICROFINANCE TRUST FUND**

KNOW ALL MEN BY THESE PRESENTS:

This Memorandum of Agreement made and entered into this _____ day of _____ in _____, Philippines by and between:

The **DELEGATION OF THE EUROPEAN COMMISSION TO THE PHILIPPINES** with office address at 30/F Tower II, RCBC Plaza, 6819 Ayala Avenue, Makati City, Philippines duly represented herein by the Ambassador and Head of Delegation, **HONORABLE JAN de KOK** hereinafter referred to as “**EC**”;

- and -

The **DEPARTMENT OF AGRICULTURE**, a government agency organized and existing under the laws of the Republic of the Philippines, with its principal office at Elliptical Road, Diliman, Quezon City, Philippines duly represented herein by its Secretary, **HONORABLE DOMINGO F. PANGANIBAN**, hereinafter referred to as “**DA**”;

- and -

The **PEOPLE’S CREDIT AND FINANCE CORPORATION**, a government-owned and controlled corporation registered with the Securities and Exchange Commission, created pursuant to Administrative Order No. 148 and Memorandum Order No. 261 dated 8 September 1994 and 9 February 1995, with principal office at Accelerando Building, 395 Sen. Gil Puyat Avenue, 1200 Makati City, Philippines duly represented by its President and Chief Executive Officer, **MR. EDGAR V. GENEROSO** hereinafter referred to as “**PCFC**”;

WITNESSETH that:

WHEREAS, the Upland Development Programme for Southern Mindanao (UDP), a special project of the DA jointly funded by the Government of the Philippines and EC has operated a Rural Financial Services Scheme intended, among others, to help address the problem of poor access to financial services by the farm households in upland communities during the period January 1999 until the end of UDP. UDP was established pursuant to a Financing Agreement between EC and GOP dated 20 October 1998.

WHEREAS, the Upland Development Program (UDP) in Southern Mindanao on behalf of the EC Delegation and the DA and the People’s Credit and Finance Corporation (PCFC) entered into a Memorandum of Agreement dated 1 September 2003 to undertake a UDP-PCFC Special Financing Program (the “Program”) for the Upland Communities as a first step to providing microfinance services through PCFC accredited microfinance Institutions (MFIs).

WHEREAS, on 31 August 2005, a total of Php12,569,296 in investment funds were entrusted by UDP to PCFC under the said Program;

WHEREAS, DA and EC through UDP wish to expand UDP-PCFC micro-finance services to all remaining UDP upland communities in the light of the success of the said Program in providing significant outreach and maintaining high loan portfolio quality amongst the PCFC accredited MFIs providing microfinance services;

WHEREAS, the EC and DA have jointly adopted the principle of establishing trust funds to hold loan funds generated in the operational lives of EC projects after their closure so as to continue the financing of credit and institutional capacity building services within their target communities.

NOW, THEREFORE, for and in consideration of the foregoing premises and of the mutual covenants hereinafter set forth, the three parties in conjunction with UDP have agreed as follows:

ARTICLE 1

ESTABLISHMENT OF THE TRUST FUND

1. EC, DA/UDP and PCFC shall establish an Upland Microfinance Trust Fund (UMTF) with the Land Bank of the Philippines (LANDBANK) Trust Banking Group (TBG) under a separate Trust Agreement (see Annex A) to facilitate the continued provision of microfinance services to upland communities in Southern Mindanao by PCFC-accredited microfinance institutions (MFIs).
2. EC and DA shall be the UMTF Trustors and LANDBANK TBG the Trustee. LANDBANK TBG shall manage the investment of UMTF funds not used by PCFC for on-lending and capacity building. PCFC shall administer and manage the disbursement of UMTF funds and related loan collections following the principles of sound financial management.
3. The UMTF shall be constituted from: a) the fund reflows specified in Appendix 1 from the present Philippine Peso twelve million, five hundred and sixty-nine thousand, two hundred and ninety-six (Php 12,569,296) UDP-PCFC Special Financing Program for the Upland Communities which will be wound up on the signature of this Memorandum of Agreement; b) additional investment funds from the UDP budget initially of up to Philippine Peso fifteen million (Php 15M) to be released within the UDP operating lifetime to match effective demand.

ARTICLE 2

PROGRAM FUND

1. EC/DA shall continue to make available the UMTF investment funds referred to in Article 1: Para 2 at no cost to PCFC. PCFC shall bear no UMTF credit risks from its own resources

2. PCFC shall use the UMTF to provide: a) microfinance investment credit for accredited microfinance institutions for on-lending to target households within UDP upland areas; and, b) institutional support for capacity building activities in the form of: (i) institutional credit to finance the salaries of MFI microfinance staff cadres, procurement of computers, software and other assets related to management information system (MIS), motorcycles and other equipment that will enhance MFI productivity and efficiency in the upland areas; and (ii) financial technology and support services (FTSS) in the form of training and consultancies.
3. Interest and service fees charged by PCFC on UMTF investment loans to MFIs on the reflows of the existing Program Php 12,569,296 and on any new investment funds deposited upon or after the execution of this MOA shall be at the prevailing PCFC rate (currently 12% per annum interest plus 1% service fee). Interest earnings generated from use of these funds shall be allocated as follows: (a) 4% for the build up within the UMTF of a Financial Technology & Support Services (FTSS) Fund; (b) 3% for a UMTF Loan Loss Reserve; and (c) the balance (currently 5%) to PCFC to cover UMTF-related lending costs. PCFC shall pay all UMTF principal repayments and UMTF FTSS Fund and Loan Loss Reserve allocations into the UMTF accounts and provide a breakdown to LANDBANK TBG on the contents of each payment. PCFC shall have sole entitlement to the 1% service fee. Interest and service fees charged on UMTF institutional loans shall all accrue to PCFC.
4. PCFC shall adopt the UMTF Operational Guidelines and Procedures set out in Annex B when disbursing and repaying UMTF loan funds and providing FTSS support.

ARTICLE 3

PROGRAM OVERSIGHT

1. An Upland Microfinance Trust Fund Steering Committee (“the Steering Committee”) shall oversee Trust Fund planning and implementation and supervise UMTF operations. PCFC shall manage all UMTF credit and FTSS operations and report directly to the Steering Committee. The composition of the Steering Committee shall be:

EC Representative (Operations Section)	Co-Chairperson
PCFC Vice President for Operations (or Treasury)	Co-Chairperson
EC Representative (Contracts & Finance Section)	Member
DA Representative (Agricultural Credit Policy Council) Executive Director ACPC	Member/Secretary
DA Representative (Chief, Legal Division)	Member
UDP National Co-Director	Member

UDP European Co-Director

Member

PCFC Team Head for Mindanao

Member

2. Co-Chairpersons and Members of the Steering Committee shall nominate alternates to serve as their representatives if required. PCFC shall assign support staff to attend Steering Committee meetings as non-voting participants.
3. ACPC shall provide secretarial services to the Steering Committee.
4. The mandate of the Steering Committee is to oversee the operations of the Trust Fund with the LANDBANK TBG and the PCFC implementation team itself. The Steering Committee shall solicit the participation of EC, DA, and the concerned PCFC administrators in making decisions especially on major policy matters that pertain to changes in operating guidelines and procedures; and approval of Annual Workplans and Budgets. Decisions in such matters need to be endorsed by the Trustors, EC and DA and if need be by PCFC as the party signing the MOA controlling the Trust Fund. Any dissenting opinions of any of the aforesaid partners shall constitute no decision. Minor policy matters (e.g. realignment of funds, administrative concerns etc.) shall be resolved by simple majority vote.

ARTICLE 4

DUTIES AND RESPONSIBILITIES OF THE CONTRACTING PARTIES

1. The EC & DA shall:

- a) During the lifetime of UDP and subject to the availability of funds allocated to credit within the approved UDP budget, authorize UDP to transfer additional funds for investment & institutional credit and/or FTSS to the UMTF based on estimates of effective demand from MFIs identified by PCFC in line with Article 3.1.
- b) Authorize the Steering Committee with PCFC to jointly identify additional expansion barangays/municipalities to be covered by UMTF services under this Memorandum of Agreement;
- c) Routinely monitor LANDBANK TBG management of UMTF investments.
- d) Through the Steering Committee, conduct progress monitoring and semestral and/or annual assessment of the UMTF Program as implemented by PCFC and its accredited MFIs;

2. PCFC shall:

- a) Upon signature of this Agreement close its UDP-PCFC Special Financing Program and transfer all assets and liabilities in PCFC books of account to the UMTF account;
- b) Act as Administrator and Manager of all credit and FTSS activities financed from UMTF sources in line with the provisions set out in the Operating Guidelines & Procedures (Annex B);
- c) With the prior approval of the Steering Committee, especially accredit MFIs providing credit services within target municipalities to operate UMTF-financed services;
- d) Prepare an annual and updated quarterly Workplan & Budget estimates detailing outreach within targeted upland UDP areas and loan disbursement & collection targets, and portfolio quality indicators to be achieved by each accredited MFI for review and approval by the Steering Committee;
- e) Appraise and approve MFI applications for investment and institution building loans, disburse funds to MFIs, collect loan repayments and revert required loan principal collections and interest net of PCFC share as outlined in Article 2.3. to the UMTF
- f) Maintain separate general ledger accounts, subsidiary ledgers and records of UMTF funds and prepare quarterly fund, program status and other reports as required by the Steering Committee;
- g) Allow auditors with written authority from the DA and/or EC to inspect UMTF records and accounts held by PCFC and its UMTF-accredited MFIs at any time subject to the security requirements of PCFC/accredited MFIs;
- h) Monitor project operations and loan performance parameters of MFI end-borrowers and achievements against targets using PCFC existing systems; and
- i) Provide quarterly and annual progress reports and accounts on UMTF operations to the Steering Committee.

ARTICLE 5

OTHER PROVISIONS

1. EC, DA, LANDBANK TBG and PCFC shall sign a Trust Agreement covering LANDBANK TBG management of the UMTF account together with agreed UMTF Operating Guidelines & Procedures endorsed by all concerned parties which shall be annexed to this MOA and form integral parts of it.
2. This MOA shall take effect upon the date of signature of the latter of the parties and shall be enforced and remain in effect until revoked.

3. Should any party for any valid reason wish to terminate this Memorandum of Agreement, the party concerned shall issue ninety (90) days written notice to the other parties prior to its withdrawal.
4. Upon termination of this Memorandum of Agreement, PCFC shall turn over all UMTF unused funds as well as administrative and financial records of its outstanding UMTF loan portfolio to LANDBANK TBG.
5. The Parties warrant that:
 - a) The officials signing this Agreement and any or all documents related thereto have been duly authorized by their respective appropriate approving authorities;
 - b) They will comply with all laws, rules and regulations affecting this Memorandum of Agreement and acknowledge that these are considered parts of the provisions hereof; and
 - c) Maximum effort shall be exerted to guarantee the success of the UMTF by ensuring that its policies and operating guidelines & procedures are faithfully complied with.
6. This Memorandum of Agreement constitutes the entire agreement between the Parties and supercedes all prior or current oral or written communications, proposals and representations with respect to the subject matter covered. To the extent the terms of this MOA conflict with the UDP Financing Agreement, the terms of the Financing Agreement shall prevail. If any provision of this MOA is held to be void, invalid, unenforceable or illegal, the other provisions shall continue in full force and effect.
7. The parties hereto may at any time, upon mutual agreement signified in writing, amend, alter, modify or rescind this Memorandum of Agreement.

IN WITNESS WHEREOF, the parties have caused this instrument to be signed by their authorized representatives on the aforementioned date and place.

The EC Delegation in Manila

By:

HON. JAN DE KOK
Ambassador & Head of Delegation

The Department of Agriculture

By:

HON. **DOMINGO F. PANGANIBAN**

PEOPLE'S CREDIT AND FINANCE CORPORATION

By:

EDGAR V. GENEROSO
President and CEO

Conforme: Upland Development Programme for Southern Mindanao	
By: DASHIEL P. INDELIBLE National Co-Director	By: WIEBE VAN RIJ European Co-Director

SIGNED IN THE PRESENCE OF:

Witness

Witness

ACKNOWLEDGEMENT

REPUBLIC OF THE PHILIPPINES)
City of _____) s.s.

BEFORE ME, a Notary Public, for and in the City of _____,
_____, personally appeared the following:

NAME	PASSPORT COMMUNITY RECEIPT NUMBER	OR TAX	DATE/PLACE OF ISSUE
JAN DE KOK	Passport # BA0056422		May 22, 2002 Netherlands
DOMINGO F. PANGANIBAN	15717607		January. 13, 2005, Quezon City
EDGAR V. GENEROSO	0602280		January 6, 2005, Manila
DASHIEL P. INDELIBLE	CC12004097		January 6, 2005 Davao Oriental
WIEBE VAN RIJ	Passport #NF4822486		December 30, 2003 Netherlands

ALL known to me and to me known to be the same persons who executed the foregoing instrument and they acknowledged to me that the same is their free and voluntary act and deed of the entities they respectively represent.

This instrument refers to a **MEMORANDUM OF AGREEMENT** consisting of eleven (11) pages including Appendix 1 and this page where the Acknowledgement is written and has been signed by all parties and their instrumental witnesses on each and every page thereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in _____, _____, this ____ day of _____ 2005.

NOTARY PUBLIC

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