

**MEMORANDUM OF AGREEMENT ON
UPLAND DEVELOPMENT TRUST FUND (UDTF)**

KNOW ALL MEN BY THESE PRESENTS:

This Memorandum of Agreement made and entered into this _____ day of March, 2004 in _____, Philippines by and between:

The **DELEGATION OF THE EUROPEAN COMMISSION TO THE PHILIPPINES** with office address at 7/F, Salustiana D. Ty Tower, 104 Paseo de Roxas cor. Perea Street, Legaspi Village, Makati City, represented herein by the Ambassador and Head of Delegation, MR. 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, Metro Manila, Philippines, duly represented herein by its Secretary, HONORABLE LUIS P. LORENZO JR. hereinafter referred to as '**DA**';

- and -

The **LANDBANK OF THE PHILIPPINES**, a government financing institution, organized and existing by virtue of the Republic Act No. 3844, as amended, with principal office address at LANDBANK Plaza, 1598 M.H. Del Pilar corner Dr. J. Quintos Sts., Malate, Metro Manila, represented herein by its President, HONORABLE MARGARITO B. TEVES, hereinafter referred to as '**LANDBANK**';

- and -

The **UPLAND DEVELOPMENT PROGRAMME**, a special project of the **DA** jointly funded by the Government of the Philippines and European Community (EC), with office at G/F Building One, A. Angliongto Avenue (Mamay Road), Lanang, Davao City, duly represented herein by the Co-Directors, MESSRS. DASHIEL P. INDELIBLE and WIEBE VAN RIJ hereinafter referred to as '**UDP**'

WITNESSETH: That

WHEREAS, UDP, is a special project of the DA jointly funded by the Government of the Philippines and EC, which intends, among others, to help address the problem of poor access to financial services by the farm households in the upland communities over a 7-year period commencing in January 1999; UDP was established following the signature of a Financing Agreement between EC and GOP dated 20 October 1998.

WHEREAS, UDP is a directed credit program (DCP) under RA 8435 of the Agriculture and Fisheries Modernization Act (AFMA) of 1997 which provides for the rationalization and consolidation of all DCPs into the Agro-Industry Modernization Credit and Financing Program (AMCFP);

WHEREAS, UDP implements Rural Finance Services (RFS) component through its 12 Partner Financial Institutions (PFIs): six (6) cooperatives, five (5) rural banks and one (1) coop bank that, since mid 2000, have embarked on organizing and capacitating sitio-based Savings and Loan Groups (SLGs) and barangays-level Financial Service Centers (FSC) in their respective areas of operation;

WHEREAS, UDP has acknowledged that its collaborating PFI's are providing, as a long-term stratagem in the uplands, financial services in UDP areas using an Upland Development Loan Fund (UDLF);

WHEREAS, DA and EC have recognized further that upland communities will need lasting credit funds that will finance the long-term progress of agri-based enterprises in the uplands;

WHEREAS, the DA and EC have the intention to transfer the EC RFS funds to the beneficiaries.

WHEREAS, DA and EC recognize the importance of making RFS, compliant with Republic Act 8435 otherwise known as Agriculture and Fisheries Modernization Act or AFMA.

WHEREAS, for the above reasons, DA and EC therefore intend to make the RFS, presently being implemented by PFI's, consistent with the national policy structure so it can continue to function even after the closure of UDP;

WHEREAS, DA and EC agreed to put up a trust fund with the Land Bank of the Philippines (LANDBANK) to facilitate the continued servicing of the PFIs and FSCs in Southern Mindanao in line with the RFS concept. This trust fund is deemed to be consistent with the provisions of the AMCFP, required under Republic Act 8435 otherwise known as Agriculture and Fisheries Modernization Act or AFMA;

WHEREAS, EC and DA consider the LANDBANK as the principal government financial institution (GFI) for agriculture and hereby expected to be the administrator of the Upland Development Trust Fund (UDTF), upon signature of the trust agreement;

WHEREAS, LANDBANK, as mandated by law, has already implemented innovative financial schemes and to ensure sustainability is engaging in a partnership with the EC in the uplands to maintain timely and appropriate financial assistance geared towards the economic development of the countryside;

WHEREAS, sharing a vision to alleviate the economic condition of upland communities in Southern Mindanao, LANDBANK agreed to support the delivery of credit and institution building services in accordance with the existing delivery infrastructure or present field units of LANDBANK;

NOW THEREFORE, for and in consideration of the foregoing premises, and of the mutual covenants hereinafter set forth, the four- (4) parties have agreed as follows:

A. THE UPLAND DEVELOPMENT TRUST FUND

1. The Program shall be called Upland Development Trust Fund, hereafter referred to as UDTF.

2. UDTF seeks to:

PFI Level:

- (a) Enhance productivity and efficiency of the existing 12 PFIs and possibly other appropriate PFIs in servicing the financial needs of upland communities;
- (b) Improve financial management systems of PFIs; and
- (c) Ensure financial self-sustainability of PFIs for its operations in the uplands.

FSC Level

- (a) Improve the operations of selected FSCs in the areas of (i) membership, (ii) CBU and savings mobilization, (iii) leadership and management, (iv) financial management and controls and (v) enterprise development;
- (b) Install effective management information system; and
- (c) Transform selected FSCs as viable and properly registered financial retailers in the uplands.

Household Level:

- (a) Improve productivity and income levels of upland households; and
- (b) Increase the net worth/capital base of upland families.

3. UDTF has two (2) interrelated components:

- (a) Credit Delivery Component- provide loans to qualified PFIs, FSCs and other lending conduits accredited by LANDBANK.
 - (b) Institution Building (IB) Component – build up capacities of PFIs and FSCs based on established cooperative models of LANDBANK as well as other village banking prototypes developed by various self-help promoting institutions specifically for remote and at times inaccessible upland areas.
4. IB funds shall be provided as grants and divided into two, namely: (a) Financial Technology and Support Services (FTSS) which are in the form of trainings, action researches and consultancies; and (b) Institutional funds which shall finance the procurement of software and other assets related to MIS as well as on an exceptional basis, to be authorized by the trustor, equipments that will enhance productivity and efficiency of PFIs, FSCs and other lending conduits.

B. IMPLEMENTATION OF THE UPLAND DEVELOPMENT TRUST FUND

1. To finance the UDTF, UDP shall make available loan funds and capacity building funds at no cost to LANDBANK;
2. UDTF shall be set up as a sustainable arrangement for long-term utilization of credit funds in accordance with the provisions of AFMA/EO 138. UDTF shall have various innovative financing schemes (IFS) that will enhance capacity of upland communities to generate sufficient economic activities and revenue to make it profitable for PFIs to service them.
3. UDP shall release Program funds to LANDBANK upon approval of UDP's Annual Work Plan and Budget (AWP/B).
4. LANDBANK shall wholesale the loan funds initially to 12 existing PFIs and later on to other additional PFIs or lending conduits in accordance with UDTF implementing guidelines and using the lending procedures and field units of LANDBANK.
5. LANDBANK shall likewise disburse capacity building funds provided by UDP based on the beneficiaries' needs, LANDBANK and UDP's assessment, in the framework of a work plan on institution building program for PFIs and FSCs, approved by UDP.
6. The LANDBANK shall bear no credit risks and be entitled to 6% of its actual loan collections under the program as service fees. LANDBANK shall assume credit risks only when they start using own bank funds by late 2005 although the LANDBANK shall endeavor to use own funds if it has already gained confidence in lending to upland households earlier than 2005. LANDBANK shall use its own funds to continue extending credit to the target clientele of UDP after UDP closure.

7. The Program funds entrusted to LANDBANK shall generate earnings in two ways: (a) Based on prevailing LANDBANK rate, but no lower than 14% per annum and (b) Earnings from unused fund balances of both IB and loan funds which are subject to short-term (temporary) placements in risk-free and high-yielding government securities. From the above-mentioned interest rate a) 4 % shall be set aside for loan losses provision and return to the loan fund, and (b) the administrative/operating expenses and trust fee charges of LANDBANK shall be deducted. The remaining balance shall be allocated to the IB fund. The aforesaid interest rates can be reviewed and the share of loan loss provision and IB can be revised by UDP, if need be in consultation with the UDTF Steering Committee.
8. LANDBANK receives for the implementation and management of the credit and IB funds service fees based on 6% of its actual loan collections and attendant trust fees of 0.5% from the earnings of unused loan and IB funds balances. These fees do not cover the costs of the IB Secretariat mentioned under point E.4, which will be financed separately from the IB funds until the end of UDP and then be taken over by LANDBANK in the event of the continuation of this agreement.
9. For 2004, upon approval of the UDP Annual Workplan and Budget (AWP/B), and after the signature of the trust agreement, UDP shall initially release Program funds amounting to P30 million, of which P25 million shall be used as credit funds and P5 million for PFI/FSC capacity building purposes. The LANDBANK shall have additional credit funds which shall come from reflows from P20 million loan funds already disbursed to PFIs/FSCs prior to this agreement.
10. At present the UDP funds with PFIs are investment contributions to the Upland Development Loan Fund (UDLF). Each PFI manages a UDLF. As remuneration for their services, the PFIs deduct 3% management fees from the earnings of UDLF. However, upon participation of LANDBANK, these PFI's shall not receive anymore management fees but get their income from their margin (interest spread) when retailing the loans to their clients. In this regard, PFIs shall be accorded with at least a six- (6) month's transition period to adjust, from the date this agreement comes into force.
11. LANDBANK shall endeavor to lend the P25 million to eligible beneficiaries within the first year after signing of this agreement. As a risk-reducing measure, LANDBANK may propose the risk guarantee coverage of Quedan Corporation to its conduits exposed to high risks associated with lending to upland households. However, no discrimination shall be made against conduits, which do not request such coverage.
12. LANDBANK reserves the right to screen the present PFIs and FSCs. It shall continue capacity building for PFIs/FSC even after the technical life of UDP provided PFIs/FSCs are able to meet the usual performance standard of LANDBANK.

C. ADMINISTRATION OF UDFP

1. EC through UDP shall remain to be the legal owner of credit and IB up to the end of the term of the program. LANDBANK shall be entrusted the administration of UDTF through a Trust Agreement, whereas the LANDBANK manages the funds following the principles of Sound Financial Management.
2. For this purpose, LANDBANK shall open two (2) Trust Accounts which shall be the repository of loan funds including principal collections (Trust Account **A**) and capacity-building funds released to the borrowers/ beneficiaries (Trust Account **B**).
3. No later than six (6) months prior to closure of UDP, the Government of the Philippines (GOP) and the European Commission (EC) shall jointly decide on the need for continued management and use of UDP funds upon expiration of UDP. The future option shall be consistent with the program's objectives and ensure the sustainability of its results. In order to ensure a smooth transition and avoid disrupting the provision of financial services and jeopardizing the projects results, the GOP and EC will decide on the continuation of this MOA and the UDTF sufficiently in advance of UDP's closure.
4. Upon results of independent assessment that the objectives of the program have not been met, the EC and GOP shall endeavor to collect all UDP funds and remit it back to program funds. The final decision by GOP and EC about the destination of the program funds will take into account the results and lessons learned.
5. LANDBANK in tandem with PFIs/FSC s shall workout appropriate legal verifications of loan documents pertinent to UDTF funds, which shall be made available for review or audit by UDP and/or Commission of Audit (COA).

D. CLIENT/PARTNER INSTITUTIONS

1. LANDBANK shall initially but not exclusively work with the twelve (12) PFIs of UDP, to wit:

Partner Financial Institutions	Area of Operation
a.) Cooperatives	
- Mangloy Multi-Purpose Cooperative (MAMPCO)	Laak, Compostela Valley
- Maragusan Valley Development Cooperative (MAVADECO)	Maragusan, Compostela Valley
- Macu Development Cooperative (MADECO)	Macu, Compostela Valley
- Nabunturan Integrated Cooperative (NICO)	Nabunturan, Compostela Valley
- Magsaysay Farmers Multi-Purpose Cooperative	Magsaysay, Davao del Sur
- Cateel Mandaya Tribal Multi-Purpose Cooperative (CAMTRINCO)	Cateel, Bagang-ga, Caraga, Manay (all in Davao Oriental)

b.) Rural Banks	
- Rural Bank of Digos Inc.	Sta Cruz, Malalag, Malita, Don Marcelino, and Jose Abad Santos (all in Davao Del Sur)
- Rural Bank of Tampakan Inc.	Tampakan, Tupi and Tantangan (all in South Cotabato)
- Rural Bank of DARBCI	Maitum and Kiamba (all in Sarangani)
- Sarangani Rural Bank Inc.	Maasim, Malungon, Malapatan, and Glan (all in Sarangani)
- Rural (Moneymall) Bank of Mabini Inc. c.) Cooperative Bank of Davao Oriental	Mabini, Compostela Valley Taragona, Mati, Lupon, San Isidro, and Banay-Banay (all in Davao Oriental)

E. ORGANIZATION AND MANAGEMENT

1. An UDTF Steering Committee (UDTF - SC) shall be formed to oversee implementation. It shall be composed of the following:

a) Mindanao Group Head, LANDBANK	Co-Chairperson
b) EC Delegation (representative)	Co-Chairperson
c) UDP National Co-Director	Member
d) UDP European Co-Director	Member
e) DA- three (3) other representatives	Member
f) Head of DAD, LANDBANK	Member
g) LANDBANK Regional Head (Region 11)	Member
h) LANDBANK Regional Head (SOCKSARGEN)	Member
i) UDP Provincial Project Office (representative)	Member
j) Quedan Corporation	Member

2. The SC shall provide the necessary policy directions in accordance with the provisions of AFMA and UDLF Implementing Guidelines. In case of conflict, AFMA provisions shall prevail.

3. The SC shall meet six-monthly or as the need arises.

4. There shall be a UDTF Secretariat based in the Office of Mindanao Branch Group (MBG) in Davao composed of two staff, primarily responsible for the IB activities: (a) IB Coordinator in charge of the assessment of borrowers' needs, the provision of IB services funded from Trust Account B and coordination/ support to the related activities in the two regional offices of LANDBANK; and (b) a MIS Specialist who will be responsible for all MIS related IB and tasked to generate the various reporting requirements of UDTF. The two staff are recruited by LANDBANK and funded from income of Trust Account B. All activities related to the operations of Trust Account A, are the direct responsibility of LANDBANK and covered by the fees it receives for its administration/ implementation.

F. DUTIES AND RESPONSIBILITIES OF DIFFERENT PARTIES

1. UDP shall:

- a) Effect the transfer of Program funds to LANDBANK in accordance with Section B of this Agreement as soon as Annual Work plan and Budget (AWP/B) for 2004 have been approved and funds have been released to UDP by EC;
- b) Draft the annual and overall work plan and ensure/ monitor its implementation;
- c) Monitor program implementation to ensure compliance with UDP's approved guidelines and report to the GOP and EC;
- d) In partnership with other parties, provide policy directions to UDTF and conduct progress monitoring, auditing and regular assessment of UDTF as implemented by LANDBANK and PFIs/FSCs;
- e) Approve the IB activities/services proposed by LANDBANK;
- f) Conduct regular audit to ensure sound financial management of UDP funds.

2. LANDBANK shall:

- a) Act as a Government Financial Institution (GFI) for and on behalf of UDP in accordance with provisions of AFMA;
- b) As GFI, act as the implementing institution of the Trust Funds consistent with Section B and C of this Agreement;
- c) Ensure that PFIs/FSCs and other lending conduits qualified under UDTF will cater to clients in the UDP targeted areas as spelled out in their loan agreement with LANDBANK;
- d) Participate in the yearly preparation of AWP/B of UDP to ensure budgets will be adequate to meet credit demands of PFIs/FSCs and other accredited conduits as well as funding requirements for IB;
- e) Maintain separate general ledger accounts, subsidiary ledgers and records of the Trust Funds and prepare quarterly fund and program status reports including the status of fund utilization and collections made and other reports as may be asked by UDP;
- f) Issue quarterly fund and program status reports for the members of the UDTF-Steering Committee;
- g) Allow EC/ European Court of Auditors or their designated representatives to inspect relevant records of the Trust Funds anytime at their request ;

- h) Monitor program operations and loan performance of PFIs/FSCs end-borrowers to cover the effectiveness and efficiency of fund utilization of trust funds to include performance against targets and repayment accomplishments.

3. DA shall:

- a) Provide policy thrusts that will create a favorable environment for the growth and development of agri-based enterprises in the uplands;
- b) Recommend policy strategies pertinent to prudent management of Program funds to guarantee UDTF sustainability in the long run;
- c) Provide technical guidance to RFS/UDTF as to compliance with AMCFP, in particular and AFMA in general;
- d) Provide technical inputs to the overall process of formulating a sustainable exit strategy for RFS/UDTF.

G. OTHER PROVISIONS

1. The LANDBANK and the EC shall sign a standard trust agreement for the implementation of the present Memorandum of Agreement. UDLF Implementing Guidelines and UDTF Operating Guidelines shall be annexed to the trust agreement and form an integral part of it.
2. This Memorandum of agreement shall take effect upon the date of signature of the latter of the parties and shall be enforced and remain in effect until the end of the term of the UDTF unless modified following annual review or revoked.
3. The parties shall issue ninety (90) days written notice should any party for any valid reason wish to terminate this Memorandum of Agreement prior to its terminal date.
4. Upon termination of this agreement, LANDBANK shall turn over all unused funds and outstanding loan portfolio as well as all financial and administrative records to the project.
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 Agreement and acknowledge that these are considered parts of the provisions hereof; and
 - c) The parties will exert maximum effort to guarantee the success of the UDTF by ensuring that the policies and guidelines governing it are faithfully complied with.
6. This Agreement constitutes the entire agreement between the Parties and it supersedes all prior or current oral or written communications, proposals and representations with respect to the subject matter covered by this Agreement. To the extent the terms of this Agreement conflict with the terms of the Financing

Agreement, the terms of the Financing Agreement shall prevail. If any provision of this Agreement is held to be void, invalid, unenforceable or illegal, the other provisions shall continue in full force and effect.

IN WITNESS WHEREOF, the parties have hereunto set their hands on March _____, 2004 at _____, Philippines.

**DELEGATION OF EUROPEAN
COMMISSION**

By:

1) Ambassador JAN de KOK
Head of EC Delegation,

2) GUY PLATTON
Head of Section, Contracts & Finance

DEPARTMENT OF AGRICULTURE

By:

LUIS P. LORENZO JR.
Secretary, Department of Agriculture

LAND BANK OF THE PHILIPPINES

By:

MARGARITO B. TEVES
President and CEO

UPLAND DEVELOPMENT PROGRAM

By:

1.) DASHIEL P. INDELIBLE
Co-Director

By:

2.) WIEBE VAN RIJ
Co-Director

SIGNED IN THE PRESENCE OF:

Witness

Witness

ACKNOWLEDGEMENT

Republic of the Philippines) S.S.
_____)

BEFORE ME, a Notary Public for and in the _____
_____ Philippines, this _____ day of
_____, 200 ____ personally appeared:

<u>NAME</u>	<u>COMMUNITY TAX RECEIPT NUMBER</u>	<u>DATE/PLACE OF ISSUE</u>
JAN DE KOK	Passport # BA0056422	May 22, 2002 Netherlands
GUY PLATTON	Passport # EB509104	July 26, 1999 Belgium
LUIS P. LORENZO JR.	10037777	February 27, 2004 Davao City
DASHIEL P. INDELIBLE	07353189	January 19, 2004 Davao City
WIEBE VAN RIJ	Passport # NF4822486	December 30, 2003 Netherlands
MARGARITO B. TEVES	05309001	January 8, 2004, Manila

Known to me to be the same persons who executed the foregoing instrument, and acknowledged to me that the same is their own free and voluntary act and deed, as well as of the offices they respectively represent.

WITNESS MY HAND AND SEAL at the place and on the date above written.

Doc. No. _____
Page No. _____
Book No. _____
Series of 200 _____

ANNEX A

List of abbreviations and acronyms

AFMA	Agriculture and Fisheries Modernisation Act
AMCFP	Agro-Industry Modernisation Credit and Financing Programme
AWP/B	Annual Work plan and Budget
CoA	Commission of Audit
DA	Department of Agriculture
DCP	Directed Credit Programme
EC	European Commission
FSC	Financial Service Centres
FTSS	Financial Technology and Support Services
GFI	Government Financial Institutions
GOP	Government of the Philippines
IB	Institution Building
IFS	Innovative Financing Schemes
MBG	Mindanao Branch Group
MIS	Management Information Systems
PFI	Partner Financial Institutions
RFS	Rural Finance Services
SLGs	Savings and Loans Groups
UDLF	Upland Development Loan Fund
UDP	Upland Development Programme
UDTF	Upland Development Trust Fund
UDTF- SC	Upland Development Trust Fund Steering Committee