

FINANCING MEMORANDUM BETWEEN THE COMMISSION OF THE EUROPEAN COMMUNITIES AND THE REPUBLIC OF THE PHILIPPINES

Economic Self-Reliance Programme - Caraballo and Southern Cordillera Agricultural Development ERP - (CASCADE)

FINANCING MEMORANDUM

The Commission of the European Communities, hereinafter referred to as "THE COMMISSION", acting for and on behalf of the European Community, hereinafter referred to as "THE COMMUNITY"

of the one part, and

the Government of the Republic of the Philippines, hereinafter referred to as "THE RECIPIENT"

of the other part,

HAVE AGREED AS FOLLOWS :

The project referred to in Article 1 below shall be executed and financed out of the budget resources of THE COMMUNITY in accordance with the provisions set out in this memorandum. The technical, legal, and administrative framework within which the project referred to in Article 1 below shall be implemented is set out in the General Conditions annexed to the Framework Agreement of 8 November 1984 between THE COMMISSION and THE RECIPIENT, as amended or supplemented by the terms of this Memorandum.

ARTICLE 1 - NATURE AND SUBJECT

As part of its 1996 aid programme, THE COMMUNITY shall contribute, by way of grant, towards the financing of the following project :

Project Number :	ALA / 96 / 27
Title :	Economic Self-Reliance Programme - Caraballo And Southern Cordillera Agricultural Development ERP -(CASCADE)

hereinafter referred to as "THE PROJECT".

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The commitment of THE COMMUNITY is fixed at 13,500,000.00 ECU (Thirteen Million Five Hundred Thousand ECU), hereinafter referred to as "THE EC GRANT".

ARTICLE 3 - ADDRESSES

Correspondence relating to the execution of THE PROJECT, stating THE PROJECT'S number and title, shall be addressed to the following :

for THE COMMUNITY :

Commission of the European
Communities,
Directorate-General 1/B for
External Relations,
Rue de la Loi 200,
B-1049 Brussels, Belgium,

Telex : 21877 COMEU B
Facsimile : (32 2) 299 0204

for THE RECIPIENT :

National Economic and
Development Authority,
NEDA sa Pasig,
Amber Avenue, Pasig,
Metro Manila, Philippines.

Telex : 29058 NED PH
Facsimile : (63 2) 63137 02

ARTICLE 4 - NUMBER OF COPIES

This memorandum is drawn up in the English language in three copies each being equally valid.

ARTICLE 5 - ENTRY INTO FORCE

This Memorandum shall enter into force on the date that it has been signed by both parties. The Annex shall be deemed an integral part of this Memorandum.

This Memorandum is subject to an expiry date, after which any balance of funds remaining available under THE EC GRANT shall be automatically cancelled. THE COMMISSION may however, depending on the circumstances, agree to an appropriate extension of this expiry date, should such an extension be requested and properly justified by the recipient.

For the present project, the expiry date of THE EC GRANT is hereby set at 31.7.2005.

Done at 28-04-1997
on
THE EUROPEAN COMMUNITY
Manuel MARIN GONZALEZ

Done at
on JUNE 09, 1997
THE RECIPIENT
DOMINGO L. SIAZON, JR.
Secretary of Foreign Affairs

ANNEX

TECHNICAL AND ADMINISTRATIVE PROVISIONS

Recipient :	The Republic of the Philippines
Project Title :	Economic Self-Reliance Programme Caraballo And Southern Cordillera Agricultural Development ERP- (CASCADE)
Executing Agency :	Department of Agriculture (DA)
Project Number :	ALA / 96 / 27

1. PROJECT OBJECTIVES

1.1 Overall Objective

The overall objective is to help the mainly indigenous rural people of this highland area in promoting an agro-based local economy that will allow them a better income and standard of living and will give them the opportunity to remain settled and develop where they are presently living with their

families.

1.2 Specific Objectives

In order to reach the ultimate goal, the operational objective is to trigger off a sustainable development process leading to self-reliance.

These specific objectives will be achieved by:

- improving people's technical capability through the introduction of appropriate upland technologies (technical self-reliance),
- removing the financial bottleneck that blocks people's initiative (financial self-reliance), and
- the development of people's owned and managed financial systems.

In addition, the project will address some issues related to the physical and structural framework within which economic activities can develop: access roads and production-marketing infrastructure, environmental protection. The project through its various activities, will also help the most vulnerable communities to build the necessary capital base that will improve their capacity to face the natural disasters (typhoons, earthquake, etc.) that are frequent in the area. Finally, the project and the LGUs will co-ordinate efforts in order to optimise the use of available human and financial resources and create the maximum synergy for local development.

To support this, assistance shall also be given for the establishment and operation of the Project Management Office (PMO), which will carry out the overall planning and implementation of the project and be responsible

for the preparation and implementation of individual project actions, and likewise for the establishment and operation of the necessary District Offices.

Key considerations in the design of these activities will include:

- an emphasis on the full participation of the local communities in the identification, planning, approval, implementation, monitoring and evaluation of project-supported actions;
- an emphasis on flexibility in project planning and management, permitting an adequate response to the priorities expressed by the local communities themselves, and to the different conditions prevailing in different parts of the project area;
- an emphasis on maximising community ownership of development actions supported by the project, in particular through community-based decision-making and through community financing of project-supported actions (including savings as a basis for further credit actions, as well as labour and materials participation in Infrastructure actions);
- and an emphasis on the sustainability of actions supported by the project, at the institutional and organisational level as well as in financial and physical terms;

1.3 Location

Financial and technical assistance will be provided for the implementation of the project in three provinces (Benguet, Nueva Vizcaya, Nueva Ecija) of the Caraballo and Southern Cordillera area in Northern Luzon.

During its 7-year lifetime, the project will extend progressively its coverage according to the resources made available by all partners involved, the existing field dynamics, the level of involvement demonstrated by the target population concerned and the existing potential and constraints for development activities. The project is expected to cover some 170 barangays with 25.000 households in up to 20 municipalities of the Provinces of Benguet, Nueva Vizcaya and Nueva Ecija.

1.4 Costs and Financing

The total direct cost of the project (including capital build-up of rural organisations) over seven years, is estimated at ECU 22.50 million, of which ECU 13.5 million will be covered by the EC grant, ECU 4.0 million by the National Government budget (part of personnel expenditures and a contribution to national road network rehabilitation), ECU 3.5 million by the Local Government Units budgets (field staff, contribution to road network rehabilitation and barangay infrastructures) and ECU 1.5 million by the rural people themselves (contribution in labour for micro-projects and capital build-up of producers groups and savings / credit associations).

The breakdown of funding by input and by source can be seen under 3.4.

2. PROJECT DESCRIPTION

2.1 Project Components

2.1.1 Individual project components will include the following;

- **Agricultural production** including dissemination of technologies adapted to an upland farming background and covering the different types of crops that are or can be developed in the area mostly rice, corn, root crops, vegetables, fruits, livestock. These should, at the beginning, privilege low cost and simple techniques, that will better match farmers' needs and their technical and financial absorption capacity. They will be progressively upgraded when the individual farmers and their organisations will have consolidated their technical and financial capacities.
- **Agricultural marketing** will require specific market studies (especially for vegetables and fruit markets), promotion of agro-processing facilities, assisting in the development of market information systems and strengthening of rural organisations better able to handle this function in relation to other existing market structures. Quantitative and qualitative requirements, value added and proper processing of products will be major concerns.
- **Micro-enterprise development** will be developed as another important source of income at household or group level. Simple technology transfer and careful economic-financial follow-up are essential.
- **Social Development component** will mainly focus on water and sanitation facilities, information and awareness and support to barangay health workers under responsibility of the municipal health service.
- **Environmental resource management** will aim at maintaining the productive potential of natural resources through appropriate agricultural practices. The concept of rational and sustainable use of natural resources will lead to the elaboration of all technical manuals as well as the planning process for activities at barangay level.
- **Technical support services and training** will be provided to the farmers' groups or communities for all activities mentioned above. Training will also be provided to LGU staff. The methods for input delivery are crucial to a progressive responsabilisation of the beneficiaries and a final take over by their organisations once they will have been consolidated under the project.
- **The financing of small productive activities** (PHP 2.000 - 5.000 a priori) i.e. most of the production and marketing as well as off-farm activities, will be transferred to the existing or to be established savings and credit organisations. The project will therefore concentrate a large share of its energy in rural financial group building or strengthening as an additional and essential strategic thrust. The rural financial organisations will receive technical support (organisation and management) and financial support when necessary (seed capital to complement their own capital build-up).
- **The productive activities or investment** that would generate excessive risks for the developing rural financial organisations or which would exceed their lending capacity or prudential ratios, can be financed by the project either under a "pump-priming" process (the project provides seed capital to an initial group savings effort in