

BY THE PRESIDENT OF THE PHILIPPINES

EXECUTIVE ORDER NO. 151

**ESTABLISHING THE FARMERS TRUST DEVELOPMENT PROGRAM
AND PROVIDING INSTITUTIONAL REFORMS AND FUND
MECHANISMS FOR MOBILIZING LONG TERM PRIVATE
SECTOR CAPITAL FOR RURAL DEVELOPMENT**

WHEREAS, the government's priority goals of poverty eradication, food security, global competitiveness and empowerment of the farmer require the creation of new institutional structures and mechanisms that can expand medium and long term private sector investments in agriculture;

WHEREAS, the achievement of these goals requires the voluntary consolidation of small farm operations into medium and large scale integrated enterprises that can access long term capital for critical modernization requirements needed to attain global competitiveness;

WHEREAS, the provision of incentives requires an institutional shift from direct subsidies and inputs towards risk-aversion mechanisms such as insurance, securities and guaranty schemes that enable diversification and formation of medium and large scale integrated farm enterprises;

WHEREAS, the Department of Agrarian Reform (DAR) is tasked to directly assist farmers, who are society's most impoverished, vulnerable and economically non-competitive sector, by undertaking innovative schemes to improve farm productivity and income;

WHEREAS, to enable the formation of integrated farm enterprises, the Department of Finance (DOF) must take the lead in catalyzing investments and developing long term capital market for agriculture through appropriate financial support, incentives and fund mechanism, including tapping of credits allocated to the agriculture and agrarian sectors under the Agri-Agra law;

WHEREAS, the Quedan and Rural Credit Guarantee Corporation (Quedancor) is mandated under RA 7393 (Quedancor Charter) to provide credit, investment and guaranty mechanisms to assist small farmers, producers and fisherfolk, and is also mandated under RA 8435 (Agriculture and Fisheries Modernization Act of 1997) to consolidate and



manage the guaranty funds of the government and to establish a centralized government capability for agricultural guaranty.

NOW, THEREFORE, I, JOSEPH EJERCITO ESTRADA, President of the Republic of the Philippines by virtue of the authority vested in me by law, do hereby order:

Section 1. Establishment of the Farmers Trust Development Program. The Farmers Trust Development Program, hereinafter referred to as the Program, is hereby established. The Program shall promote, authorize and support the voluntary consolidation of small scale agricultural landholdings into medium and large scale farm enterprises through a usufruct trust arrangement with a Service Consortium, to be chosen by the participating farmers and approved by the DAR.

Section 2. Components. The Program shall have the following components:

- a. Farmers Trust. Individual agricultural landholdings in suitable commodity belt areas, can be made available to a Farmers Trust Enterprise through the conveyance of the usufructuary rights to the Trust, by the respective owners or rights holders, who shall retain ownership and title to the properties, and share in the income of the enterprise under an equitable arrangement.

The farm owners may opt to work for the enterprise with priority to employment. For ease of organization, the farmers may be represented by a properly authorized cooperative, federation or farmer association.

- b. Service Consortium. The Service Consortium shall undertake the organization and development of the Trust Enterprise and assist in securing capital resources through the system of project securitization and issuance of project participation certificates. The Consortium, which shall be chosen by the farmers or land rights holders, shall also provide a total package of production inputs and services, to include a unified management system, organizational support, supply of key technologies, equipment and other modernization requirements to put the Enterprise's productivity at par with international standards, and provide the critical arrangements for an assured market. The type of services to be provided by the Consortium shall be entirely demand-driven.



PJEE Hologram # 7432

- c. Trust Agreement. The farmer or land rights holder and the Service Consortium shall enter into a trust agreement defining the undertakings of both Parties. The agreement shall include the (1) conveyance of the usufructuary rights of the individual land rights holders to the Farmers Trust to be formed under a Trustee Bank to be appointed by the Parties; (2) package of critical services; (3) project inputs and resources to be provided by the Service Consortium; (4) life term of the agreement and exit options; (5) economic and equitable profit sharing arrangement; and (6) other accountabilities and duties of the Parties to the Trustee Bank as the enforcer of the agreement, the custodian of the assets, cash flows of the project, and protector of the rights of investors and creditors of the Trust.
- d. Project Securitization. The Farmers Trust Enterprise shall be funded mainly through the capital formation or financing system of project securitization as validly developed and practiced under Philippine laws, which shall be structured appropriately to conform with the nature of the varying assets, cash flows and business objectives of the Enterprise as well as to provide adequate security and incentives for the investors.
- e. Asset Pool Formation. The usufruct rights of the land holders and the assets and receipts of the entire project or Trust Enterprise shall constitute the Asset Pool of the enterprise. These assets shall be placed under the trusteeship service of a reputable banking institution.
- f. Approval of Land Rights Conveyance. The conveyance of usufruct rights over landholdings to a Farmers Trust shall be approved by DAR or DENR depending on land jurisdiction, and shall bind the government to the terms of the conveyance for the period of the Trust arrangement.
- g. Enterprise Business Plan. The project shall be governed in accordance with an approved and disclosed Enterprise Business Plan, which shall show the viability of the project and govern the implementation, receipts and disbursement of funds, recovery/payment of investments and distribution of the revenue/profits to the Parties to the Trust.
- h. Project Participation Certificates. The Farmers Trust shall issue Project Participation Certificates to private investors, backed up by the Trust's asset pool.



- i. Guaranty Coverage. The Project Participation Certificates issued by the Farmers Trust shall be extended appropriate guaranty coverage by the Quedancor.
- j. Private Nature of the Funds. The funds of the Trust shall be private in nature and thus, shall be accounted and treated as private funds in accordance with generally accepted auditing rules and standards.
- k. Insurance Coverage and Exit Option. The Farmers Trust shall provide insurance protection to participating farmers and other groups in case of *force majeure* or bad management by enterprise administrators by ensuring that important decisions made by the Trust are duly consulted with all participants of the trust arrangement. The Farmers Trust shall also provide an exit option to the Parties.

Section 3. Program Committee. A Program Committee is hereby constituted to coordinate Program implementation and formulate guidelines and mechanisms that will, among others, provide additional protection to participating farmers and identify risk levels and sharing arrangements of Trust participants.

The Committee shall be chaired by the Secretary of Agrarian Reform with the Secretary of Agriculture, Secretary of Finance, Secretary of Environment and Natural Resources and Quedancor President as members. The Committee may call upon other departments and agencies for assistance in the implementation of the Program.

Section 4. Funding Support for the Program. The DOF and its attached agencies are hereby directed to extend their support to the capital formation strategies and measures that may be undertaken for the Farmers' Trust Development Fund, and to find ways and means as may be legally feasible to enlarge and strengthen the guaranty capability of Quedancor.

- a. Department of Finance. Pursuant to the objectives of the DOF to pump prime or catalyze investments and economic activity in the agricultural sector, the department is hereby authorized to provide assistance in the following areas:

- (1) Project Preparation and Start-up Fund

To support the interim requirements needed to firm up, document and start-up the specific projects that



PJEE Hologram # 7434

form the basis of the Farmers Trust Development Fund, the DOF is authorized to provide funding for these requirements.

(2) **Farmers Trust Development Fund and Farmers Trust Guaranty Fund**

To catalyze and support the establishment of the Farmers Trust Development Fund and the Farmers Trust Guaranty Fund, the DOF is authorized to provide funds and coordinate with other agencies, particularly the Bangko Sentral ng Pilipinas, for other incentives needed.

(3) **Sovereign Guaranty**

The DOF is authorized to issue the sovereign guaranty of the Republic of the Philippines in accordance with this issuance and the charter of Quedancor.

b. The Farmers Trust Development Fund. The DAR, in coordination with the DOF, shall cause the establishment of the Farmers Trust Development Fund under a Special Purpose Vehicle (SPV), created according to and based upon an acceptable and viable project as presented in an Enterprise Business Plan and audited with due diligence. The SPV shall issue Farm Development Trust Certificates, the proceeds of which shall finance designated Farmers Trust Enterprises or purchase the Project Participation Certificates thereof. The purchase of the Farm Development Trust Certificates by banking institutions shall be deemed as compliance with the Agri-Agra law under the alternative compliance mechanism of PD 717.

c. The Farmers Trust Guaranty Fund. The Quedancor is authorized to establish a Farmers Trust Guaranty Fund to support the Program and guaranty the securities issued by the Farmers Trust Development Fund in accordance with Section 23 of RA 7393 (Quedancor charter).



Section 5. Role of Quedan and Rural Credit Guarantee Corporation. The Quedancor shall extend utmost guaranty coverage support for Project Participation Certificates issued for DAR-sponsored Farm Development Trust Enterprises, as may be legally feasible and in consonance with the broadened mandate of Quedancor under AFMA as well as its original mandate.



Section 6. Agri-Agra Compliance. The purchase of Farmers Trust Certificates that may be issued for the financing of Farmers Trust Enterprises take on the nature of loans extended to the enterprise, which represent the associated interests of the members and/or the joint venture.

The Project Participation Certificates, when duly covered by the Quedancor guaranty system, merit treatment as eligible securities for Agri-Agra law compliance. The Bangko Sentral ng Pilipinas shall provide the necessary implementing rules and official issuances for guidance and compliance by banking institutions. Additional incentives in the form of additional eligibilities of the securities as bank reserves, liquidity reserves and others may be considered.

Section 7. Applicability of the Trust Mechanism to Other Rural Sector Activities. The Trust mechanism as described and authorized herein may be applied with appropriate modifications to fisheries, pasture lands, forest lands and other productive enterprises suited for consolidation.

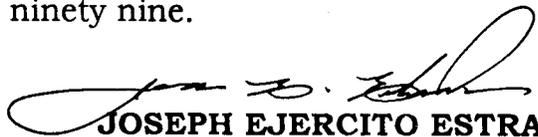
Holders of agricultural lands under titled ownership or long-term lease from government under pasture, forestry or other arrangements, may join or initiate a Farmers Trust.

Such endeavors shall be subject to the approval of the DAR, DENR or DA, depending on the land jurisdiction.

Section 8. Repealing Clause. All issuances, executive and administrative orders, rules and regulations or parts thereof which are inconsistent herewith are hereby repealed or modified accordingly.

Section 9. Effectivity. This Executive Order shall take effect immediately.

Done in the City of Manila, this 27th day of September, in the year of our Lord, nineteen hundred and ninety nine.


JOSEPH EJERCITO ESTRADA

By the President:



RONALDO B. ZAMORA
Executive Secretary



PMS LIBRARY

Received

OCT 25 1999

Date



PMS LIBRARY BC004299



PJEE Hologram # 7436



Handwritten initials