

**MEMORANDUM OF UNDERSTANDING ON FINANCIAL
COOPERATION BETWEEN THE NATIONAL ECONOMIC
DEVELOPMENT AUTHORITY OF THE REPUBLIC OF THE
PHILIPPINES AND THE MINISTRY OF ECONOMY OF THE
KINGDOM OF SPAIN**

Wishing to strengthen the friendship and to pursue the level of economic and financial cooperation between the two countries.

Taking into account the shared intention of maintaining favorable conditions for the realization of the projects of mutual interest.

The National Economic Development Authority of the Philippines and the Ministry of Economy of Spain (hereinafter referred to as The Parties) have agreed to the following:

1

The Spanish Party declares" its willingness to make available to the Philippines financial facilities for the amount of up to 155 Million US Dollars, to finance exports of Spanish goods and services for projects of common interest during the years (2001-2003). Should the need arise, the abovementioned amount might be increased by mutual agreement.

2

Out of the amount mentioned in Clause 1, up to 150 Million US Dollars will consist in credits in concessionary terms, with a minimum grant element of 35 per cent to finance exports of Spanish capital goods and services for the total or partial implementation of projects set up by mutual agreement and to be carried out by Spanish firms.

These concessionary credits will generally be of the mixed credit type, in accordance with the following guidelines:

- 50 p.c. from the budget yearly allocated to the Development Aid Fund (FAD), managed by the Spanish side.
- 50 p.c. Commercial Credits in OECD Consensus terms.

However, in specific cases and always by mutual agreement, there could be established other financial schemes, with a different distribution of FAD and Commercial Credits, always trying to obtain a balanced use of both types of credit.

The specific financial terms for each credit will be established on a case-by-case basis by the Spanish side.

3

Both types of credit to be availed of by government corporations will be supported by the sovereign guarantee of the Republic of the Philippines through the Department of Finance. In the case of credits to be availed by government agencies,

the Department of Finance will be the sovereign borrower. All credits will be in accordance with OECD Arrangement on Guidelines for Officially Supported Export Credits.

4

The amount of downpayment financed will not exceed 15 p.c. of the total value of the contract. The amount of local and third countries goods and services financed by the loans up to 15 p.c. of the total value of the exports of goods and services.

5

In order that the final buyer benefits from the concessionary financing, the Philippine side will have to cooperate with the Spanish side so that transfer conditions adapt to the aid target to be attained. In this context, prior to each project's approval by the Spanish Interministerial Commission for FAD and before elevating the project to the Spanish Council of Ministers, the Philippine side will confirm the conditions to be applied.

6

Financial agreements related to FAD credits will be executed in accordance with international laws and the regulations of both countries. Financial agreements will be negotiated and signed by the Philippine Department of Finance and the Spanish Instituto de Credito Oficial (ICO), both acting as representatives of, and duly empowered by, the competent authorities.

7

Up to a maximum of a third of the total established financial facilities could be employed each year within the program's lifespan. Nevertheless, once the annual appropriation has been fully exhausted, the financing of additional projects could be considered on a case-by-case basis, always within the framework of the total available amount as well as the agreed upon programming parameters (Annex III).

A list of projects to be financed on a concessionary basis during the first year of this MOU will be mutually agreed upon by both sides and subjected to the necessary review and approval by the appropriate authorities of both governments (refer to Annex I). Additional projects will be subsequently selected for 2002 and 2003 by both sides through annual meetings and official exchange.

8

The selection process of suitable firms to carry out projects financed on a concessionary basis will be done through national competitive bidding among Spanish companies. The bidding procedures will be held in the Philippines according to Executive Order No. 302 Implementing Rules and Regulations and Annex II.

The tender terms of reference shall be published in the Philippines and Spain. The Economic and Commercial Office of the Spanish Embassy in Manila will provide informative support to the selection process and will be a non-voting member in the PBAC (Pre-Bid and Award Committee) of the agreed projects.

9

Additional concessionary facilities on top of those mentioned in Clause 1 would be available in co-financing for projects or project components awarded to Spanish companies; through tenders financed by Multilateral funded Institutions or through international tenders issued with the Philippines' own financing. In all cases, due account will be taken of OECD consensus requirements for concessionary financing.

10

A bilateral Finance Working Group (FWG) consisting of representatives of both countries will supervise the implementation of this program. The FWG will meet at least once a year to review the program. The Group will also select new projects for the following years within the framework of the Philippines' priorities. The first meeting of the FWG will take place in the Philippines through 2001.

11

Both parties agree that an adequate follow up and evaluation of projects is an essential requirement to improve the quality of cooperation. In order to enhance this aspect, both parties will make their best efforts to jointly monitor project implementation. To this end, fact finding missions will be organized to evaluate and follow up on-going projects so as to ensure their effective and efficient implementation and their impact on the recipient country's development, and eventually to introduce the necessary corrective/improvement measures. With this purpose in view, the Spanish party will carry out field visits and project checks jointly with their Philippine counterparts. The Philippine party undertakes to facilitate the mission's task and to provide relevant information on the projects to be inspected.

12

Alls tariff duties and taxes, if any, levied by the Philippine Government on goods and services imported, or on domestic purchases, within the framework of this Memorandum will be the sole responsibility of the Philippine beneficiaries/recipient agencies. Under no circumstances will the charges be borne by the concessionary facilities under the Memorandum.

13

Contracts to be financed under this Memorandum may be denominated in US dollars, euros, or any other currency quoted in the Madrid Foreign Exchange Market, provided that the currency applied to the credit is the same as the currency applied to the contract.

During the term of implementation of this program/the Spanish party will be ready to provide grants up to a total amount of 5 Million US Dollars, to cover the costs of feasibility studies, project definition or project evaluation for projects,of common interest.

The need for such funding will be decided jointly by both parties and stated through exchange of letters.

The studies will be awarded by the Spanish party to Spanish consultants or to the pertinent institutions involved.

15

This Memorandum of Understanding shall enter into force on the date of the latter written notification by the Contracting Parties, through diplomatic channels,

indicating compliance with their internal requirements for its entry into force. Pending such entry into force, the two Parties agree to give provisional effect to this Memorandum of Understanding. .

SIGNED in Manila on the 30th day of June 2000, in two copies in English.

FOR THE NATIONAL ECONOMIC
DEVELOPMENT AUTHORITY OF
THE REPUBLIC OF THE
PHILIPPINES

(Sgd.)

FOR THE MINISTRY OF
ECONOMY
OF THE KINGDOM OF SPAIN

(Sgd.)

ANNEX I

PROCEDURE GUIDELINES

Procedures are an important issue to develop the MOU on Financial Cooperation signed between the Philippine National Economic Development Authority and the Spanish Ministry of Economy. It is also clear that NEDA and the Spanish Ministry of Economy must be in close contact to exchange official information on projects to be financed under this MOU.

Procedures agreed by both parties are as follows:

1. The Philippine Executing Agency identifies and develops a project which it regards as a priority under its Medium-Term Philippine Development Plan and Medium-Term Public Investment Plan.
2. The Philippine Executing Agency presents the projects to NEDA for evaluation and requests that it be included under the Spanish project pipeline for this MOU.
3. NEDA explores with the Spanish Ministry of Economy, through the Economic and Commercial Office of the Embassy of Spain in Manila, the possibility of the inclusion of the said project in the Spanish pipeline.
4. The Spanish Ministry of Economy informs NEDA positively of the inclusion of the said project in the Spanish pipeline of projects.
5. Both NEDA and the Economic and Commercial Office of the Embassy of Spain in Manila hold regular consultations to be updated on the evaluation of the project.
6. NEDA reviews and approves the project.
7. NEDA endorses the project to the Spanish Ministry of Economy for inclusion in the Spanish pipeline.
8. The Philippine Executing Agency prepares and conducts the bidding in accordance with the rules and regulations stipulated under the Philippine Executive Order number 302 and the bidding procedure recommendations of the Spanish Ministry of Economy (Annex II). .

The tender terms of reference shall be published in the Philippines and Spain. The Economic and Commercial Office of the Spanish Embassy in Manila will provide