

HOUSE OF REPRESENTATIVES
Quezon City

NINETEENTH CONGRESS
Third Regular Session

House Bill No. 10977



Introduced by Representative PABLO JOHN F. GARCIA

EXPLANATORY NOTE

The agricultural sector is the backbone of the Philippine economy, contributing significantly to food security, rural employment, and poverty alleviation. At the heart of this sector are smallholder farmers who cultivate most of the country's farmland. However, these farmers face persistent challenges such as limited access to financing, vulnerability to climate change, inadequate market infrastructure, and difficulties integrating into modern agricultural value chains. These obstacles not only hinder their productivity but also limit their capacity to achieve sustainable livelihoods.

The proposed Sustainable Value Chain Financing for Smallholder Agricultural Production Act addresses these pressing challenges by providing a comprehensive financing framework designed specifically for smallholder farmers. This bill aims to empower farmers by improving access to financial resources, enhancing technical capacities, and fostering integration into profitable agricultural value chains, all while promoting environmentally sustainable practices. It is based on a paper published by the Philippine Institute for Development Studies in the *Philippine Journal of Development*.¹

The bill acknowledges the barriers smallholder farmers face when seeking credit from traditional financial institutions due to perceived risks. To address this, it proposes the creation of special credit facilities with preferential interest rates and flexible repayment terms. These facilities, managed by accredited banks and cooperatives, will reduce the risks involved in agricultural financing and ensure that farmers can access funds at all stages of production, processing, and marketing.

¹ Bayudan-Dacuycuy, C., Magno-Ballesteros, M., Baje, L. K. C., & Ancheta, J. A. (2022). Sustainable value chain financing for smallholder agricultural production in the Philippines. *Philippine Journal of Development*, 46(1). Philippine Institute for Development Studies. <https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidspid46-2022-1b.pdf>

Recognizing the high level of risk associated with agricultural production, the bill strengthens crop insurance programs by increasing indemnity rates and streamlining the claim process. It expands eligibility to cover partial damages to crops and livestock, thereby improving the capacity of smallholder farmers to recover from losses and maintain financial stability during adverse events. Farmers who adopt sustainable farming techniques such as organic farming, crop rotation, and agroforestry will benefit from lower interest rates, extended loan terms, and tax incentives. These measures will encourage the adoption of practices that protect natural resources, improve soil health, and increase resilience to climate change.

Different crops face unique risks and challenges. This bill mandates the creation of commodity-specific support programs aimed at addressing these needs. The programs will work in collaboration with local government units and cooperatives to provide targeted assistance in improving storage, marketing, and processing infrastructure, especially during periods of market oversupply. Cooperatives play a critical role in organizing smallholder farmers and linking them to markets. The bill provides tax incentives and technical support to cooperatives that transition from being mere loan conduits to market facilitators, helping farmers access larger, more reliable markets and negotiate better prices for their products.

Access to finance alone is not enough to ensure success. This bill recognizes the importance of equipping farmers with the skills and knowledge necessary to use their financial resources effectively. It mandates training in smart farming, precision agriculture, mechanization, and digital platforms, all designed to improve productivity and integrate smallholder farmers into modern agricultural value chains.

Another key feature of the bill is the establishment of a Rural Credit Information Division within the Agricultural Credit Policy Council. This division will maintain a database of smallholder farmers' loan histories and develop a platform for financial institutions to share borrower performance data. This will streamline loan approvals, enhance transparency, and allow for better monitoring and analysis of loan disbursements. Furthermore, the bill advocates for increased manpower to monitor loans and prevent non-performing assets.

The bill encourages public-private partnerships as a means of fostering collaboration between the government, financial institutions, agribusinesses, and NGOs. These partnerships will pool resources and expertise to create sustainable value chain financing mechanisms that benefit smallholder farmers across the country.

This bill complements existing laws that support agricultural development in the Philippines, namely, Republic Act No. 8435 or the Agricultural and Fisheries Modernization Act of 1997 by advancing the goals of agricultural modernization, Republic Act No. 10000 or the Agri-Agra Reform Credit Act of 2009 by enhancing compliance by providing new avenues for banks to fulfill their obligations, targeting smallholder farmers within the value chain, by Republic Act No. 11901 or the Agriculture, Fisheries, and Rural Development Financing Enhancement Act of 2022 by strengthening the financing framework by addressing risk mitigation and ensuring more inclusive and sustainable financing mechanisms.

The proposed Sustainable Value Chain Financing for Smallholder Agricultural Production Act is a timely and necessary intervention to address the critical financing needs of smallholder farmers in the Philippines. By improving access to financial resources, promoting sustainable practices, enhancing market integration, and fostering cooperation between the public and private sectors, the bill aims to create a more resilient and productive agricultural sector. Ultimately, this legislation will contribute to the broader goals of rural development, poverty alleviation, and food security in the country.

In view of the foregoing, the immediate passage of this bill is earnestly sought.

A handwritten signature in black ink, appearing to read 'P. Garcia', is positioned above the printed name.

Rep. PABLO JOHN F. GARCIA
3rd District, Province of Cebu

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House Bill No. **10977**

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AN ACT

**PROVIDING FOR SUSTAINABLE VALUE CHAIN FINANCING FOR SMALLHOLDER
AGRICULTURAL PRODUCTION AND FOR OTHER PURPOSES**

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

Section 1. Short Title. This Act shall be known as the "Sustainable Value Chain Financing for Smallholder Agricultural Production Act."

Section 2. Declaration of Policy. It is the policy of the State to promote sustainable agricultural development by enhancing access to financing for smallholder farmers. The State recognizes the critical role of smallholder farmers in ensuring food security and rural development. This Act seeks to provide a comprehensive framework for sustainable value chain financing that supports the entire agricultural value chain, from production to marketing.

Section 3. Definition of Terms. For purposes of this Act, the following terms shall be defined as follows:

(a) Smallholder Farmers - refers to farmers who own or cultivate agricultural land not exceeding five (5) hectares.

(b) Value Chain - refers to the full range of activities required to bring a product from the initial input supply stage through the various phases of production, processing, marketing, and distribution to the final consumer.

(c) Sustainable Agricultural Practices - refers to farming practices that are environmentally sound, economically viable, and socially responsible, including but not limited to organic farming, crop rotation, agroforestry, and integrated pest management.

(d) Public-Private Partnership (PPP) - refers to a cooperative arrangement between one or more public and private sectors, typically of a long-term nature, aimed at financing, designing, implementing, and operating projects that serve the public.

Section 4. Establishment of Sustainable Value Chain Financing Mechanisms for Smallholder Agricultural Production. The Agriculture, Fisheries, and Rural Development Financing System (AFRDFS) established under Republic Act No. 11901 shall dedicate a portion of its credit quota and establish the following mechanisms:

(a) Credit Facilities - Special credit facilities shall be made available to smallholder farmers through accredited financial institutions, cooperatives, and rural banks. These facilities shall offer preferential interest rates and flexible repayment terms to support sustainable agricultural production.

(b) Guarantee Fund - A Guarantee Fund shall be established to cover the risks associated with lending to smallholder farmers. This fund shall be managed by the Philippine Guarantee Corporation (PhilGuarantee) and shall encourage financial institutions to lend to smallholder farmers by mitigating potential losses.

PhilGuarantee shall increase the coverage of crop insurance programs by increasing indemnity rates and expanding eligibility to cover partial damages to crops and livestock, by streamlining the claim process to ensure timely release of insurance payments to reduce the lag between claim filing and indemnity release, by promoting partnerships with local government units (LGUs) to increase awareness of available crop insurance services, and by other similar methods.

(d) Grant Programs - Programs for capacity building, technology adoption, and infrastructure development related to sustainable agricultural practices shall be provided to smallholder farmers.

The AFRDFS shall establish commodity-specific support programs that address the specific risks and needs of farmers and work with LGUs and cooperatives to provide targeted assistance in improving storage, marketing, and processing of high-value crops, especially during periods of oversupply.

Section 5. Incentives for Sustainable Agricultural Practices. Smallholder farmers who adopt sustainable agricultural practices shall be eligible for the following incentives:

(a) Lower Interest Rates - Farmers who meet the sustainability criteria set by the DA shall be eligible for lower interest rates on loans provided under this Act.

(b) Extended Loan Terms - Loan repayment periods may be extended for farmers engaged in sustainable agricultural practices, depending on the crop cycle and market conditions.

(c) Tax Incentives - Smallholder farmers who comply with sustainability standards may be eligible for tax incentives, including exemptions from certain local taxes and fees that shall be recommended by the AFRDFS.

Cooperatives that engage in collective marketing, storage, and processing activities or in helping their members gain better access to markets and higher returns shall likewise be eligible for tax incentives, namely:

- i. expanded income tax and Value Added Tax (VAT) exemption to cover non-member transaction;
- ii. deduction on taxable income for investments in priority agricultural infrastructure such as post-harvest, storage facilities and the like;
- iii. tax exemption for research and development activities;
- iv. reduced tax rate for PPPs under this Act.

Technical support shall likewise be provided for cooperatives seeking to link smallholder farmers with institutional buyers to ensure that farmers have reliable markets and reduced dependency on informal lenders.

Section 6. Promotion of Public-Private Partnerships. The government shall promote and facilitate public-private partnerships in the development and implementation of sustainable value chain financing projects. These partnerships may include collaborations with financial institutions, agribusinesses, non-governmental organizations, and international development agencies.

Section 7. Capacity Building and Technical Assistance. The Bangko Sentral ng Pilipinas (BSP), in collaboration with relevant government agencies and educational institutions, shall provide training and technical assistance to smallholder farmers to enhance their financial literacy, farm management skills, and knowledge of sustainable agricultural practices. Training programs on smart farming, precision agriculture, mechanization, and the use of digital platforms for loan applications and farm management shall likewise be provided. These programs shall be designed to ensure that farmers can effectively utilize the financing and resources provided under this Act.

Section 8. Improvement of Agricultural Loan Information Systems. The is hereby established Rural Credit Information Division within the Agricultural Credit Policy Council (ACPC) that shall maintain a database of individual smallholder farmers' loan histories and develop an integrated digital platform for financial institutions to share data on agricultural loans, borrower performance, and risk profiles to facilitate the design of better financial products.

Section 9. Monitoring and Evaluation. To ensure effective oversight and prevent non-performing loans, the BSP, in collaboration with the Department of Finance (DOF) and Department of Agriculture (DA), shall allocate sufficient resources to increase the manpower dedicated to monitoring and evaluating agricultural loans. This shall include hiring of additional

loan officers, auditors, and compliance personnel and the establishment of local monitoring units in regions with significant agricultural presence that shall partner with local cooperatives, microfinance institutions (MFIs), and other organizations that have on-ground monitoring capacities.

The BSP shall establish a monitoring and evaluation system to assess the effectiveness of the financing mechanisms and programs established under this Act. An annual report shall be submitted to Congress to ensure transparency and accountability.

Section 10. Penalty Clause. Failure to comply with the provisions of this Act shall be subject to the penalties and sanctions stipulated in Section 9 of Republic Act No. 11901. The BSP shall impose harsher penalties to repeat offenders or those who willfully violate this Act.

Section 11. Implementing Rules and Regulations. The BSP, in consultation with the DA, DAR, DOF, DILG, ACPC, Land Bank of the Philippines, Development Bank of the Philippines, Cooperative Development Authority, the banking industry, MFIs, and other stakeholders, shall promulgate such rules and regulations as may be necessary to implement the provisions relating to the mandatory agricultural and fisheries financing requirement, within sixty (60) working days after approval of this Act.

Section 12. Separability Clause. If any provision of this Act is declared unconstitutional or invalid, the other provisions not affected thereby shall remain in full force and effect.

Section 13. Repealing Clause. All laws, decrees, executive orders, and other issuances or parts thereof that are inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

Section 14. Effectivity. This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,