

THIRTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

'04 JUN 30 P 6:06

RECEIVED BY:

SENATE

S. No. 504

Introduced by Senator S. R. Osmeña III

EXPLANATORY NOTE

The mandate of the National Food Authority (NFA) to stabilize the prices of grain is two-sided. On the one hand, the NFA sets a ceiling on retail prices of rice for consumer welfare, and on the other hand, it sets a floor on farmgate prices of palay to assure farmers of a remunerative price of their product.

In order to achieve its price objectives, the NFA performs a time arbitrage function in the palay and rice markets – i.e. it buys grain during the harvest season to support prices when excess supply tends to drive prices down, and sells rice in the retail market during the off-harvest months to mitigate the upward pressure on prices caused by relative scarcity.

Due to financial constraints, the NFA's procurement operations in the palay market covers only 5% to 7% of total production, which is insufficient to influence market prices.

The bill proposes to authorize the NFA, subject to the approval of the Department of Finance, to issue *Farmer's Crop Certificates* in order to supplement the agency's funding resources and enable it to expand the coverage of grain buying operations and assist more farmers.

Farmers' Crop Certificates will be an interest-bearing instrument with a maturity of 180 days, with which the NFA can partially pay the farmer for the stock of grain that the latter deposits at any NFA warehouse. The proportion of the value of the crop to be paid in FCCs will not be more than 50% and subject to agreement between the NFA and the farmer. The FCCs will not also be negotiable and guaranteed by the national government; eligible for the agri-agra requirement of banks; and exempt from documentary stamp taxes and taxes on interest income and capital gains.

As far as NFA is concerned, the authority to issue FCCs will free up its credit lines for other purpose and enable it to expand coverage of its buying operations. The tax exemption will allow NFA to offer lower interest without losing its competitiveness vis-à-vis other financial instruments.

For the farmer, the NFA's buying operations gives him an option other than to sell his crop at a loss to the trader at prices prevailing during the harvest season. The FCC also gives him an option if and when he can forego the liquidity of cash payment for his crop. Overall, it is hoped that the FCCs will be the beginning of the development of more vibrant rural financial markets.

In view of the foregoing, early passage of this bill is earnestly requested.



SERGIO OSMEÑA III
Senator

THIRTEENTH CONGRESS OF THE)
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04 JUN 30 P6:07

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S. No. 504

Introduced by Senator S. R. Osmeña III

AN ACT
PROVIDING FOR A FARMERS' CROP CERTIFICATE SYSTEM IN THE
PROCUREMENT OF GAINS BY THE NATIONAL FOOD AUTHORITY (NFA)
GUARANTEED BY THE NATIONAL GOVERNMENT.

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

1 **Section 1. Title.** – This Act shall be known as the “Farmers’ Crop
2 Certificate System” for the procurement of palay and other grain by the National
3 Food Authority.

4 **Sec. 2. Declaration of Policy.** – It is hereby declared the policy of the
5 State to ensure adequate support for the country’s rice farmers especially during
6 harvest time, when chronic imbalances between the supply of and demand for
7 palay in the country’s rice producing regions usually result in depressed palay
8 prices.

9 In furtherance of this policy, the state hereby creates a financial
10 instrument that will encourage the movement of financial resources from urban-
11 based financial institutions to the countryside, to be administered by the National
12 Food Authority (NFA) in line with the Government’s palay procurement program.

13 **Sec. 3. Statement of Goals and Objectives.** – The goals and objectives
14 of this Act are the following:

- 1 a) to spearhead the development of other similar financial instruments
2 which will allow financial institutions to participate profitably in the
3 rural credit markets and improve farmers' access to credit resources;
- 4 b) to stabilize the farmgate prices of palay at levels that provide not only
5 reasonable returns to farmers but also result in affordable prices for
6 consumers;
- 7 c) to promote foodgrain marketing efficiencies through stakeholders'
8 awareness of, and access to, updated and upgraded foodgrain post-
9 harvest technology and services;

10 **Sec. 4. Farmers' Crop Certificate.** – The National Food Authority shall
11 issue the Farmers' Crop Certificates (FCC) which shall be guaranteed by the
12 National Government through the Department of Finance subject to the
13 approved debt ceiling. The FCC's shall be redeemable one-hundred eighty
14 (180) days from the date of their issuance by the NFA or such maturity period
15 that NFA may decide upon consultation with farmers' cooperatives and
16 institutional investors. The FCC shall bear an interest rate of Treasury Bills of
17 similar maturity [and] subject to the approval of the Department of Finance. The
18 FCC shall be a negotiable instrument which can be sold, bartered, purchased
19 and/or used as collateral for any loan or debt incurred.

20 **Sec. 5. Availment of the FCC.** – Farmers and their organizations may
21 avail of the FCC system by depositing their palay/corn/grain produce at any
22 authorized NFA warehouse. The NFA shall pay them cash for no less than fifty
23 percent (50%) of the value of their grain deposit: Provided, however, That
24 farmers and their organizations shall have the option of being paid in cash for a
25 lower proportion of the value of their grain deposit, as may be agreed upon
26 between the NFA and the farmers' cooperatives; Provided further, That the NFA
27 shall have the right to dispose of the grain in order to raise cash for payment to
28 the farmers. The remaining proportion may be paid in FCCs. The NFA may also

1 issue FCCs to banks for the sole purpose of financing its local grain
2 procurement operations.

3 The holder of the FCC shall also be given the option to buy back the
4 grains paid through FCCs: Provided, however, That he pays the authorized
5 storage, handling and/or carrying charges imposed by NFA, including allowance
6 for shrinkage; Provided further, That this option shall not apply to FCCs directly
7 issued to banks or financial institutions.

8 The NFA will assist the Land Bank of the Philippines in establishing a
9 secondary market for the FCC prior to its issuance in order to improve the
10 acceptability of the FCC to farmers and their organizations.

11 **Sec. 6. Reference buying prices and product standards.** – The NFA
12 shall adopt a reference buying price for palay/corn/grains based on [average
13 prices during the lean months of the previous cropping season, and based on
14 certain] minimum product standards. The NFA shall disseminate information
15 regarding such reference buying prices and product standards among farmers,
16 farmers' cooperatives and organizations.

17 **Sec. 7. Exemption from Tax.** – For a period of five (5) years from its
18 initial issue, FCCS shall be exempted from the documentary stamp tax and
19 taxes on interest income and capital gains Provided, however, That the
20 President of the Philippines may extend this exemption for another five (5)
21 years.

22 **Sec. 8. Alternative Investment.** – The FCC shall qualify as an
23 alternative investment for the unused portion of the reserve fund requirement for
24 agrarian reform credit availment under Presidential Decree No. 717.

25 **Sec. 9. Implementing Rules and Regulations.** – The Departments of
26 Finance, Agriculture and the national Economic Development Authority, in
27 consultation with the National Food Authority shall issue the necessary rules
28 and regulations to implement the system.

1 **Sec. 10. *Repealing Clause.*** – Laws, rules and regulations and other
2 issuances inconsistent with the provisions of this Act are deemed modified,
3 revoked or repealed accordingly.

4 **Sec. 11. *Effectivity.*** – This Law shall take effect immediately upon its
5 approval.

Approved,