

POSITION PAPER

On the Proposed “Philippine Innovation Act”

Presented to the Committee on Small Business and Entrepreneurship Development, in response to request during 2nd Technical Working Group Meeting on Proposed Innovation Bills (House Bills Numbered 5618, 5701, 6227 and 6476), 12 February 2018, Ramon V. Mitra Bldg. House of Representatives, Quezon City

1. **The legislature has recognized the important role of government in mainstreaming innovation.** The proposed “Philippine Innovation Act” in the House (and its counterpart Senate bill), provides for the establishment of a National Innovation Council (NIC) to serve as the country’s policy making body on innovation. Except for the private sector composition, the structure of the NIC¹ appears to largely mimic an expanded composition of secretaries comprising the NEDA Board. The NIC is to be given the responsibility of crafting a National Innovation Agenda and Strategy Document (NIASD). Further, the legislation earmarks approximately P1 billion to finance innovation grants for entrepreneurship.
2. **While this legislative measure provides a concrete mechanism for developing an innovation roadmap** through the NIASD, for supporting micro, small and medium establishment (MSMEs) and for mainstreaming innovation policy, **the establishment of this new body potentially duplicates work of existing government structures and initiatives.** In pursuit of its Inclusive Innovation led Industrial Strategy ((i3s or “i-cube”), the Department of Trade and Industry (DTI) has developed a concrete partnership with the Department of Science and Technology (DOST) and the Commission on Higher Education (CHED). The DTI and DOST have historically been at the forefront of supporting innovation activities. Funds earmarked to the NIC, such as the proposed P1 billion grants, may already be channeled even through existing mechanism such as MSME support facilities at DTI, or DOST’s Small Enterprises Technology Upgrading (SETUP) project.
3. **If, however, Congress considers it best to establish a new body** (that will involve key cabinet secretaries and representatives of the private sector and academic/research institutions), **it is important to keep membership in the proposed NIC much smaller**, to say ten members, exclusive of the Chairperson. Five of the members could be Secretaries of government departments, while the other five could represent the private sector, academic, scientific/research community. Having the President chair the NIC is important to show the importance of innovation in the development landscape. The DTI Secretary, given its work in i3s can serve as Vice-Chairperson. For the first two years of the NIC’s establishment, the four government members maybe (i) the Secretary of Science and Technology, (ii) the Secretary of Budget and Management; (iii) the Secretary of Economic Planning; and, (iv) the Chairperson of CHED. To promote women leadership, the legislation could insist that at least two of all the ten NIC members should be women. NIC meetings could be set as quarterly perhaps not necessarily in the law itself but in its implementing rules and regulations, with Department Secretaries other than NIC members possibly invited as resource persons. As in the NEDA Board, the President could be given the leeway to change the composition of government members (other than the Vice-Chair).
4. **Several sections of the proposed National Innovation Act may need to be shortened, or even deleted** as they may pre-empt work of the NIC on defining the innovation roadmap. Section 21 on Credit Quotas should be deleted as the imposition of a credit quota would be detrimental to resource

¹ The proposed NIC is to have the President as its chair, the Director General of the National Economic and Development Authority (NEDA) as vice-chair, with members that include 16 Secretaries of various Departments, including DTI and DOST, the Department of Information and Communications Technology (DICT) and the Department of Budget and Management (DBM), as well as the Director-General of the Intellectual Property Office, and 7 executive members (at least one of whom shall be a woman) representing business, academe, and the scientific community

allocation and increase the cost of financial intermediation. Our experience on the Agri-Agra law reveals as much. Also, innovation investments are risky by nature, so it is not advisable to legislate banks to allocate their funds to such type of investments.

5. **While better spending for research and development and innovation activities and an innovation roadmap are important, several studies** examining innovation (including several studies at the Philippine Institute for Development Studies) **show the importance of complementary factors** (physical and human capital) **and supporting institutions to fostering innovation.** The returns to innovation investments are often positive but, when countries are below a certain level of development, the returns decrease with distance from the frontier and may even become negative. If the Philippines invests in innovation but cannot also import the necessary machines, if it has too few trained workers and engineers, or if it cannot draw on new organizational techniques, the returns to that innovation investment will be low. The House of Representatives also has proposed House Bill (HB) 4581, also called the “Science for Change Program (S4CP) Act” that attempts to earmark increased funds at DOST for innovation, considerably increasing R&D budgets from PHP5.8 billion to PHP21 billion, and more or less doubling yearly over the next five-year period to reach PHP672 billion by 2022. While HB 4851 provides ambitious ground for spending, it tends to be S&T focused, and there are concerns that bigger need not always be better. Although innovation derives a lot from S&T or R&D, and thus government need build a good science base, innovation is ultimately practiced in the economy to add value to products and services. **We need a concrete plan to considerably increase the pool of research scientists and engineers in the country.** The role of the private sector and the research/academic community should thus not be neglected. At the very least, the composition of the NIC should have nearly as many members from the private sector and academe (as government members), as we can only foster innovation if innovation actors are working hand in hand to ensure that innovation is also ultimately promoting inclusiveness. Ultimately, government’s role regarding fostering innovation must be focused on (a) **removing barriers and bottlenecks to innovative initiatives in regulatory frameworks;** (b) **providing meaningful and impactful support to innovators;** (c) **investing in required technology, research infrastructure, and R&D researchers;** (d) **carrying out appropriate reforms in education, the investment climate, and trade.**

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