

FIFTEENTH CONGRESS OF THE REPUBLIC OF THE PHILIPPINES

HOUSE OF REPRESENTATIVES

H.B. No. **3382**

INTRODUCED BY THE HONORABLE ANGELO PALMONES

AN ACT TO ESTABLISH FINANCIAL MANAGEMENT REFORMS FOR
GOVERNMENT RESEARCH AND DEVELOPMENT OPERATIONS AND FOR
OTHER PURPOSES

EXPLANATORY NOTE

Research & Development (R & D) are drivers of economic growth: Many studies here and abroad have shown that over the long term economic growth is determined by population and technological changes (Solow¹ 1956, and Swan² 1956). It has also been shown that the positive impacts of technological change can be enhanced and maintained over time through deliberate and systematic investments in R & D and putting in place appropriate policies and programs (Paderanga³).

In the Philippines the contribution to the economy of the use of technology in the production system is about 40% while in developed economies it is about 70% showing that the Philippines is lagging behind in the application of technology in the production systems and that there is therefore much room for improving the economy through R & D.

The conduct of R & D in the country is hampered among other things by the bureaucratic procedures in financial management that are regulatory rather than facilitative thus stifling initiatives and creativity in research and development activities⁴. A dramatic example is the situation where the funds for the implementation of a research project have already been transferred to the implementing agency but these funds could not be spent to acquire needed equipment because of constraining procurement procedures.

A long-sought solution to this situation are administrative reforms and a system of incentives that will encourage and stimulate researchers to undertake more relevant and quality R & D programs and activities vital to national development⁵. More supportive

¹ Solow, R. 1956. A contribution to the theory of growth. *Quarterly Journal of Economics* 70:65-94.

² Swan, T. 1956. *Economic growth and capital accumulation* Economic Record 32:334-61

³ Paderanga, C. (2009). R & D and Innovation in the Philippines: Issues and strategies.

⁴ Sto. Tomas, P. A. 1992. Message. Accounting and Auditing Manual for Research Operations (Book I). Philippine Council for Agriculture, Forestry and Natural Resources Research and Development.

⁵ Perez, C. B. 1992. Foreword. Accounting and Auditing Manual for Research Operations (Book I). Philippine Council for Agriculture, Forestry and Natural Resources Research and Development.

and facilitative guidelines in financial management will encourage fruitful endeavors and bear significant breakthroughs in the field of R & D⁶.

One researcher from the University of the Philippines Los Baños states that "the primary problem that slowed down the implementation of the project was the bureaucratic system of disbursing funds including issuance of appointments to project staff. ... Researchers have to spend considerable time [to administrative activities] which could otherwise be channeled to the research."⁷ Another researcher complained that "the funds have already been transferred to our agency but could not be used to purchase the needed equipment because of the many and difficult procurement requirements"

This Act seeks to make the financial management of research and development more supportive and facilitative for government R & D and extension activities in the country.



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⁶ Enriquez, S. Jr. 1992. Message. Accounting and Auditing Manual for Research Operations (Book I). Philippine Council for Agriculture, Forestry and Natural Resources Research and Development.

⁷ Tolentino, D. Jr. 2010. Community-based Production System for Selected Trees and Vines in Support of the Furniture and Handicraft Industries. University of the Philippine Los Baños. PCARRD-funded project.

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H.B. No. 3382

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AN ACT TO ESTABLISH FINANCIAL MANAGEMENT REFORMS FOR
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OTHER PURPOSES

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

ARTICLE I
TITLE, DECLARATION OF POLICY AND OBJECTIVES

SECTION 1. *Title* - The act shall be known as the 2010 Financial Management Reforms Act for R & D.

SECTION 2. *Statement of Policy and Objectives* - The Philippines firmly believes that science and technology enhance the economy's potential and competitiveness and are essential to national development. It is the declared policy of the state as enshrined in the 1987 Constitution that "the State shall give priority to research and development, invention, innovation and their utilization". Furthermore, the same Constitution declares that it shall "support indigenous, appropriate and self-reliant scientific and technological capabilities, and their application to the country's productive system and national life".

For this purpose a financial management system supportive and facilitative to research and development system of the Philippines shall be pursued to attain the maximum return of the country's investments. Financial management reforms to improve systems of fund disbursements, R & D supplies and equipment procurement, personnel management shall be established for a more effective and efficient systems suited to the needs of the scientific communities.

SECTION 3. *Objective* - This Act shall provide financial management and R & D operational guidelines relevant and supportive to the peculiar requirements and concerns of the research and development communities.

ARTICLE II DEFINITION OF TERMS

SECTION 4. *Definition of Terms* - For the purpose of this Act the following terms will have these corresponding definitions:

Accreditation – refers to the process by which the Department of Science and Technology (DOST) recognizes an organization as an agency undertaking research and development and related activities such as but not limited to extension activities

Accredited agencies – are research agencies of government, whether undertaking research, development and extension wholly or in part, full-time or part time such as the academic institutions that have been recognized by DOST and are permitted to use the Manual of Procedures for Financial Management.

Grants-in-Aid – are funds provided by funding institutions to R & D implementing agencies for the conduct of research, development and extension activities.

Incomes – are monies received by R & D agencies for services rendered such as technical services laboratory tests and analyses, licensing fees, training fees, the sale of developed technologies, fabricated equipment and publications and for other similar services

Research and development – refers to the conduct of research, whether in natural, physical or social sciences (including economics) including extension activities by government agencies.

Research and development agencies – are agencies of government or academic institutions conducting research, development or extension whether such activities are done only by a sector, division or segment of the agency.

Research equipment – refers to but not limited to tools, machineries (including fabricated ones), laboratory tables and chairs, computers, cameras, calculating machines, and others that are needed in the conduct of research, development and extension activities

Research supplies and materials – includes but not limited to chemical, reagents, plants, animals, minerals, office supplies that are necessary in the conduct of research, development and extension activities or R & D institutions.

ARTICLE III FINANCIAL MANAGEMENT AND PROCEDURES

SECTION 5. *Financial Management Reforms* – The Department of Science and Technology (DOST) in consultation with the Department of Budget and Management (DBM) and the Commission on Audit (COA) and other concerned agencies of

government shall formulate the rules, regulations and operational procedures on accounting and budgeting systems for the research and development communities. Within 180 days from the approval of this Act the DOST shall issue a Manual of Procedures for Financial Management for use by accredited science and technology institutions of the country. This manual shall be revised or updated to meet changing needs and requirements of the scientific communities.

For agencies where research, development and extension are done by a sector or division or other segment, the Manual for Financial Management shall only apply to those sectors, divisions or segments of the agencies. The other sectors, divisions or segments that are not conducting research, development or extension shall not be covered by the Manual of Financial Management.

SECTION 6. *Uniformity of Accounting Procedures for the Scientific Communities* – All government agencies conducting research and development including extension activities shall have a uniform financial management procedures by adopting the Manual of Procedures for Financial Management issued by the DOST. These government agencies conducting research, development and extension activities shall first be accredited by the DOST as part of the R & D Financial Management System. The DOST shall establish the procedures for accreditation.

SECTION 7. *Fund Releases for R & D by the Department of Budget and Management (DBM)* – The appropriations for research, development and extension in the natural, agricultural (including fisheries and forestry), technological and engineering sciences including social sciences (including economic research, development and extension) for department and bureaus, offices or agencies of government shall be released only upon the recommendation of the Secretary of DOST. The DOST shall issue the necessary guidelines for the implementation of this provision.

SECTION 8. *Disbursement of Funds* – Grants-in-Aid as well as other local funds shall be disbursed by the source agencies as outright expenses. They shall be released to the R & D implementing agencies who shall deposit said funds in a government depository bank as Trust Accounts. The provisions of EO 338 (Directing the Deposit of Cash Balances to the National Treasury) on the prohibition in the establishment of trust funds are hereby revoked.

Funds regardless of sources intended for the conduct of research, development and extension including the establishment of infrastructures and purchase of supplies and equipment for R & D can be realigned to meet the requirements of the projects.

Unexpended fund balances at the termination/conclusion of research, development, extension and R & D infrastructure projects shall not revert back to the National Treasury for three years and can be utilized to fund priority science and technology projects with proper recording and reporting. The Head of the agency is hereby given the authority to realign the unexpended balances but must inform (not to obtain permission) DOST for

the use of such balances. If after three years there are still balances from a specific project such balances shall revert back to the National Treasury.

SECTION 9. *Use of Income* – Incomes derived by a research and development agency, accredited by DOST, from fees from technical services such as but not limited to laboratory tests and analyses, licensing fees, training fees, the sale of developed technologies, fabricated equipment and publications can be used to defray expenses fabrication, repair, maintenance and upgrading of research equipment and facilities, testing and calibration facilities, printing of publications, purchase of specialized equipment, technical books, supplies and materials and for such other purposes that may be deemed necessary by the head of agency, Provided, however that such incomes shall not be used for payment of salaries and wages and for repair of vehicles.

Incomes can likewise be deposited in a government depository bank as a Trust Account.

ARTICLE IV

IMPORTATION OF R & D EQUIPMENT AND SPECIALIZED SUPPLIES AND MATERIALS

SECTION 9. *Exemption from Customs Duties and Other Taxes* – All items equipment, supplies and materials, including vehicles for research, development and extension and related activities imported by DOST and accredited agencies, or by local or international agencies accredited by DOST shall be exempt from payment of custom duties or other taxes.

Likewise, specialized equipment for science and technology education shall be exempted from payment of custom duties.

SECTION 10. *Customs Procedures on Importation of R & D Equipment and Other Supplies and Materials* – The DOST and the Department of Finance (DOF) shall establish the rules and regulations on the exemption of taxes on the importation of R & D equipment and supplies and materials including vehicles as well as educational equipment.

ARTICLE V

MISCELLANEOUS PROVISIONS

SECTION 11. *Implementing Rules and Regulations* – The DOST in consultation with concerned agencies of government shall formulate the implementing rules and regulations within 180 day of approval of this Act.

SECTION 12. *Separability clause* – If any section or provision of this Act shall be declared invalid or unconstitutional, such shall not invalidate any other section or provision of this Act.

SECTION 13. *Repealing Clause* – All laws, decrees, executive orders, rules and regulations or parts thereof which are in conflict with the provisions of this Act are hereby repealed or modified accordingly.

SECTION 14. *Effectivity* – This Act shall take effect thirty (30) days following its full publication in the Official Gazette or two(2) major daily newspaper of general circulation.

Approved