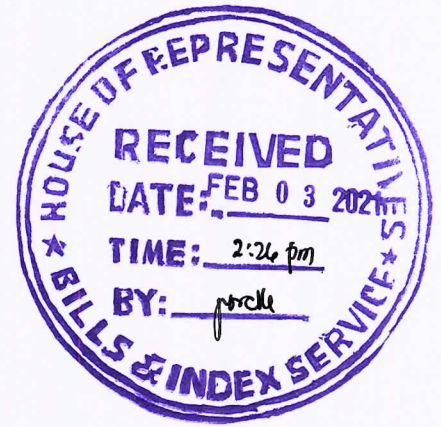




Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

EIGHTEENTH CONGRESS
Second Regular Session

House Bill No. 8617



**Introduced by Representatives Sharon S. Garin, John Reynald M. Tiangco, and
Weslie Gatchalian**

EXPLANATORY NOTE

The 1987 Philippine Constitution recognizes the indispensable role of the private sector and encourages private enterprise by providing incentives to the needed investments in attaining industrialization and full employment. Hence, private sector participation is vital in the generation, promotion, utilization and adaptation of science, technology, and innovation to pursue national development and progress.

Consequently, Republic Act No. 11293, otherwise known as the "Philippine Innovation Act" was enacted to acknowledge innovation as a vital component of the country's development policies to promote the competitiveness of micro, small, and medium enterprises (MSMEs) to achieve inclusive and sustainable economic development.

The government shall then have the responsibility to formulate, among others, the appropriate mechanics to guide and manage the transfer of appropriate industrial technology in the country. As it is, manufacturing industries are the prime generator of employment, income, inter-industry and inter-sectoral linkages, firm productivity, and technological development among all other sectors to the economy.

The undersigned authors strongly believe that the Philippine manufacturing sector needs to seize the opportunities from the transformation to the Fourth Industrial Revolution through the adoption of new technologies, processes, products, services, and business models arising from the Fourth Industrial Revolution to be globally competitive.

The establishment of Fourth Industrial Revolution will rapidly spur the development of new production techniques and business models that would transform global production systems which can spur operations and catapult the competitiveness of the country's manufacturing sector.

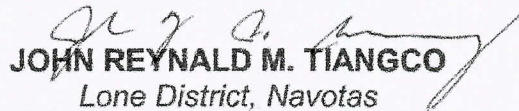
The Department of Trade and Industry (DTI) has crafted the Inclusive Innovation Industrial Strategy (I³S) as the country's new industrial strategy to grow globally competitive and innovative industries.

In support of such strategy, this bill shall provide a performance-based, targeted, time-bound, and transparent fiscal and non-fiscal support to facilitate the adjustment to the Fourth Industrial Revolution and secure the revitalization and transformation of the country's manufacturing sector, stimulate innovation, expand research and development, and accelerate research commercialization activities, attract investments in emerging industries and industry clusters, and encourage global value chain upgrading.

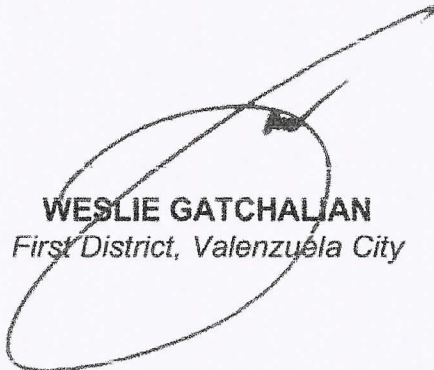
In view of the foregoing, the passage of this bill is earnestly sought for.



SHARON S. GARIN
Party List, AAMBIS-OWA



JOHN REYNALD M. TIANGCO
Lone District, Navotas



WESLIE GATCHALIAN
First District, Valenzuela City



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AN ACT
INSTITUTIONALIZING THE SECURING MANUFACTURING REVITALIZATION
AND TRANSFORMATION (SMaRT) PROGRAM IN THE PHILIPPINES

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

SECTION. 1. Short Title. - This Act shall be known as the "*Securing
Manufacturing Revitalization and Transformation (SMaRT) Program of the
Philippines.*"

SEC. 2. Declaration of Policy. It shall be a national policy of the State to
promote inclusive and sustainable industrialization through the country's Inclusive
Innovation Industrial Strategy (I³S) to grow globally competitive and innovative
industries. Towards this end, the State shall:

- (a) Pursue an innovation-centered and science and technology-based industrialization as the primary engine for rapid, sustained, and inclusive growth, job creation, and poverty reduction;
- (b) Stimulate the development of Micro, Small, and Medium Enterprises (MSMEs) and innovative start-ups;
- (c) Deepen the country's participation in global value chains through addressing gaps and establishing linkages in industry supply and value chains;
- (d) Attract strategic investments in high-technology, high-value, and high spill-over industries and industry clusters;

- (e) Formulate fiscal and non-fiscal incentive programs to effectively encourage industry-led innovation projects and accelerate transformation to Fourth Industrial Revolution.

SEC. 3. Definition of Terms. As used in its Act, the following terms are defined as follows:

- (a) "*Participant*" refers to any individual, partnership, cooperative, corporation, or other entity engaged in the manufacture of goods incorporated, organized, and existing under Philippine laws;
- (b) "*Fourth Industrial Revolution*" refers to the fourth industrial and technological transformation of global production systems as a result of the emergence of technological breakthroughs in cyber-physical systems;
- (c) "*Global Value Chain*" refers to the global geographic fragmentation of activities involved in the production, supply, distribution, and post-sale activities; *Innovation* refers to the creation of new ideas that results in the development of new or improved policies, products, and processes, which are then spread or transferred across the market;
- (d) "*Innovative Product*" refers to a manufactured good that is new or significantly improved, such as improvements in technical specifications, component materials, software in the product, user friendliness or other functional characteristics;
- (e) "*Innovative Process*" refers to a new or significantly improved production or delivery method through changes in techniques, equipment and/or software;
- (f) "*Research and Development*" refers to any activity which is a systematic, intensive study directed toward greater knowledge or understanding of the subject studied; a systematic study directed specifically toward applying new knowledge to meet a recognized need; or a systematic application of knowledge towards the production of useful materials, devices, and systems or methods, including design, development, and improvement of prototypes and new processes to meet specific requirements.

SEC. 4. The Role of the Department of Trade and Industry (DTI). - The Department of Trade and Industry, as the primary government agency in charge in the coordination, promotion, facilitation and regulation in all Philippine industries and investment activities, shall perform the following:

- (1) Oversee the activation, implementation, and monitoring of the SMaRT Program;
- (2) Facilitate the regular conduct of industry-specific researches, technology reviews, and market studies to support the implementation of the Program;
- (3) Coordinate industrial innovation efforts with relevant government agencies and instrumentalities;

- (4) Submit the annual report on the performance of the SMaRT Program to the Office of the President (OP); and
- (5) Perform such other acts as may be necessary or incidental to the exercise of its functions and powers and the discharge of its duties under this Act.

SEC. 5. Eligibility and Qualifications of Participants. - The DTI shall establish the application and selection process of the Participants. The Participants shall possess all of the following qualifications, and such other criteria as may be required by DTI:

- (1) Duly registered sole proprietorship, partnership, cooperative, or corporation with at least 40% equity held by Filipinos, operating under existing laws in the Philippines; In operation for at least 5 years;
- (2) Not a recipient of, or have previously received, any government funding for the same approved expenses or project;
- (3) Furthermore, the following factors must be considered in the approval of the application and the provision of the level of fiscal support to the Participant:
 - (a) Substantial amount of investment;
 - (b) Level of technology;
 - (c) Innovation, research and development;
 - (d) Impact on the industry's value and/or supply chain linkage;
 - (e) Employment contribution;
 - (f) Sustainability of the activity;
 - (g) Spill-over and multiplier effects;
 - (h) Geographic location and impact on industrial development in rural areas; and
 - (i) Other economic impact of the investment plan for the activity.

SEC. 6. Priority Industries in Innovative Manufacturing. - The following industries shall be prioritized in the provision of fiscal incentives under this Act:

- (1) Next Generation Vehicles;
- (2) Advanced Machinery and Equipment;
- (3) Nanotechnology;
- (4) Clean Technology;
- (5) Digital Health;
- (6) Intelligent Electronics;
- (7) Advanced Agriculture; and
- (8) Synthetic Biology and Advanced Materials;

The DTI may include additional industries as it deems necessary taking into consideration other government strategies, innovation priorities, and relevant laws: *Provided*, That the utilization, adoption, generation, and commercialization of intellectual property registered in the Philippines on these industries shall be likewise prioritized in the application and selection process.

SEC. 7. Establishment of a SMaRT Grant Fund. - There is hereby created a SMaRT Grant Fund under the supervision of the DTI to provide full or partial cost subsidy to any of the following activities:

- (1) Conduct of firm innovation assessments such as, but not limited to, quality and operational management systems studies and Fourth Industrial Revolution readiness assessments;
- (2) Upskill and/or reskill of workforce through human resource development and training programs;
- (3) Application for intellectual property and industrial design research;
- (4) Conduct of testing activities and/or establishment of shared testing facilities for international standards conformance, certification, and accreditation.

Provided, That the activity must lead to the generation, adoption, or utilization of innovative products and innovative processes arising from the Fourth Industrial Revolution.

SEC. 8. Establishment of the SMaRT Credit Fund. - The DTI, in coordination with the Bangko Sentral ng Pilipinas (BSP), Land Bank of the Philippines (LBP), and the Development Bank of the Philippines (DBP), shall establish a SMaRT Credit Fund. It shall consist of loans and other financing activities for the purposes of generating and scaling up innovation in the manufacturing sector in accordance with this Act: *Provided*, That the loans benefitting agri-business enterprises shall be considered as part of the compliance with the credit quota requirement of Republic Act No. 10000, otherwise known as the "*The Agri-Agra Reform Credit Act of 2009*": *Provided, further*, That the loans benefitting the Participants shall be considered as part of the compliance with the credit quota requirement of Republic Act No. 11293 otherwise known as the "*Philippine Innovation Act*".

The following activities may be eligible for the SMaRT Credit Fund: *Provided*, That the activity must lead to the generation, adoption, or utilization of innovative products and innovative processes arising from the Fourth Industrial Revolution.

- (1) Manufacture of innovative products;
- (2) Deepening of its participation in its industry's global value chain through upgrading into other high-value manufacturing activities that will fill in supply and value chain gaps in the country;
- (3) Acquisition of new and advanced industrial machinery and infrastructure and integration of new software and hardware technologies such as, but not limited to, Blockchain, Artificial Intelligence, Cloud Technology, Robotics, Intelligence-of- Things (IoT), Augmented Reality/Virtual Reality, Drone Technology, Additive Manufacturing; and
- (4) Conduct of research and development activities.

SEC. 9. Establishment of a SMaRT Venture Fund. There is hereby created a SMaRT Venture Fund under the DTI to be administered in coordination with the National Development Company (NDC). The SMaRT Venture Fund shall be used to match investments by selected investors to Participants, subject to Sections 5 and 6 of this Act.

The NDC and DTI shall jointly develop and issue the appropriate rules and regulations for the selection of investors and the effective management and utilization of the SMaRT Venture Fund.

SEC. 10. No Double Availment of Incentives. - Registered Participants shall not be allowed to register their activity under any other program granting incentives provided for by other special laws.

SEC. 11. Monitoring and Compliance. - The innovative transformation progress of each Participant, among other deliverables and commitments, shall be subject to a strictly monitored periodic audit.

The DTI may limit availment of support as it may deem necessary: *Provided*, That failure to comply with and violation of any of the provisions of this Act shall be subject to cancellation, suspension, forfeiture of support, fines and such other applicable penalties as may be allowed or prescribed by existing and applicable laws, rules and regulations.

SEC. 12. Appropriations. - The DTI shall be provided with the following initial funds to be drawn from the national government for the for the initial implementation of the following programs:

- (1) The amount of Five billion pesos (P5,000,000,000.00) shall be allocated for the establishment of SMaRT Grant Fund;
- (2) The amount of Ten Billion Pesos (P10,000,000,000.00) shall be allocated for the establishment SMaRT Credit Program; and
- (3) The amount of Fifteen Billion Pesos (P15,000,000,000.00) shall be allocated for the establishment SMaRT Venture Fund.

Appropriations for the succeeding years shall be included in the General Appropriation Act.

SEC. 13. Implementing Rules and Regulations. - The DTI, in coordination with BOI, NDC, BSP, DOF, DBM and other concerned government agencies shall promulgate the rules and regulations to implement the objectives and provisions of this Act.

SEC. 14. Separability Clause. If any provision of this Act is declared invalid or unconstitutional, the other provisions not affected thereby shall remain valid and subsisting.

SEC. 15. Repealing Clause. All laws, decrees, orders, rules and regulation, or other issuances or parts thereof inconsistent with the provisions of this Act are hereby revoked, repealed, amended or modified accordingly.

SEC. 16. Effectivity. This Act shall take effect fifteen (15) days after its complete publication in the Official Gazette or in at least one (1) national newspaper of general circulation.

Approved,