

**REVIEW OF COLLECTION AND DISTRIBUTION
OF REVENUES
FROM NATURAL RESOURCES**

PHILIPPINES POVERTY ENVIRONMENT INITIATIVE

The Philippines Poverty Environment Initiative is a collaborative programme of the United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP) and the Government of the Philippines (GoP), with the Department of the Interior and Local Government (DILG) as the Implementing Partner (IP). The PPEI supports the GoP, civil society and the business sector to utilize revenues and benefits from sustainable environment and natural resources (ENR) management for poverty reduction through improved capacity and enabling conditions at national and local levels.

Published July 2012.

Produced by the UNDP-UNEP-DILG Philippines Poverty Environment Initiative

Writers: Dr. Ma. Cecilia G. Soriano and Ms. Elizabeth P. Makayan

Printing: VJ Graphics

Cover Photos: Palawan, Philippines; Rice Terraces in Banaue, Philippines. Accessed at www.tourism.gov.ph, and Maria Cristina Falls in Iligan City, Philippines. Accessed at <http://www.iligantoday.com>.



Table of Contents

Preface • vi-vii

1. Review Purpose and Key Recommendations • 1-3

- 1.1 Rationale and Methodology • 1-2
- 1.2 Organization • 2
- 1.3 Key Recommendations • 2-3

2. LGU Shares in National Government Revenues • 4-9

- 2.1 1987 Philippine Constitution • 4
- 2.2 1991 Local Government Code • 4-6
- 2.3 General Appropriations Act • 6-8
- 2.4 National Guidelines on Utilization of Funds • 8-9
- 2.5 Local Appropriations Ordinances • 9

3. Distribution of Mining Revenues and Other ENR Fees • 10-45

3.1 LGU Shares in Revenues from Mining • 10-27

- A. Mineral Products and Exports • 10-11
- B. Mining Laws • 11-14
- C. Joint Circulars • 14-17
- D. Income, Excise and Other Taxes on Mining • 17-20
- E. Mining Fees and Charges • 21-23
- F. Special Mining Funds and Plans • 23-24
- G. Mining Companies in the Philippines • 25-27
- H. Local Ordinances on Mining • 27-28

3.2 LGU Shares in Revenues from Electric Power Generation • 28-36

- A. LGU Shares in Special Privilege Tax on Mini-Hydroelectric Power • 28-29
- B. LGU Shares in Revenues from Electric Power Generation from Renewable Energy Sources • 30-31
- C. LGU Shares in Revenues from the Exploration, Development and Exploitation of Petroleum and Other Indigenous Energy Resources • 31-32
- D. LGU Shares in Revenues from Coal Production • 32-33
- E. LGU Shares in Revenues from Electric Power Generation from Geothermal Sources • 34-35
- F. LGU Shares in DOE Fees and Charges • 35

3.3 LGU Shares in Revenues from Other Natural Resource-Based Industries • 36-41

- A. LGU Shares in Excise Taxes on Virginia-Type Cigarettes • 36-37
- B. LGU Shares in Excise Taxes on Tobacco Products • 37-38
- C. LGU Shares in Forestry Charges • 38-39
- D. LGU Shares in Fishery Charges • 39-41

3.4 LGU Shares in Revenues from Other Industries • 41-45

- A. LGU Shares in Value Added Tax (VAT) • 41
- B. LGU Shares in VAT and Franchise Tax from Horse Racing • 42
- C. LGU Shares in the 5% Final Tax on Registered Enterprises in Subic and Other Special Economic Zones • 42-43
- D. LGU Shares in Motor Vehicle User Charges • 43-45

4. Experiences of Other Countries • 46-48

- 4.1 Indonesia • 46-47
- 4.2 Malaysia • 47
- 4.3 Thailand • 47
- 4.4 Comparative Tax Rates • 48

5. Recommendations • 49-53

Abbreviations and Acronyms • 54-56

Definition of Terms • 57-64

Annexes

- 1 : Income of LGUs by Source, 2005 to 2009
- 2 : Map of Metallic Mineral Deposits of the Philippines
- 3 : Metallic Mineral Production, 2006 to 2010
- 4 : Map of Non-Metallic Mineral Deposits of the Philippines
- 5 : Non-Metallic Mineral Production, 2006 to 2010
- 6 : National Taxes and Fees Withheld by Mining Companies
- 7 : Local Taxes and Fees Paid by Mining Companies
- 8 : List of MGB Forms
- 9 : Environmental and Social Responsibilities under the Mining Act
- 10 : Major Mining Companies in the Philippines
- 11 : Hydro/Coal/Geothermal Power Generation
- 12 : Rates of Royalty/Mining License Tax/Excise Tax in Selected Countries
- 13 : Draft Administrative Order to Create the Coordinating Council on Extractive Industries and Environmental Protection
- 14 : Map of Land Utilization
- 15 : Map of Industry and Mining
- 16 : MGB Staffing

List of Figures

- Figure 1. Release and Distribution of Shares from National Wealth ● 16
Figure 2. Hydropower Generation ● 29
Figure 3. Coal Power Generation ● 33
Figure 4. Geothermal Power Generation ● 34
Figure 5. Fish Production per Sector ● 40

List of Tables

- Table 1. Allocation Criteria for the Distribution of LGU Shares from National Wealth ● 6
Table 2. Total Appropriations for LGU Shares from National Wealth, 2006-2012 ● 7
Table 3. Actual Obligations for LGU Shares from National Wealth, 2006-2010 ● 7
Table 4. LGUs' Shares in the Proceeds from the Utilization and Development of National Wealth: 1st and 2nd Releases of Funds (In Pesos) ● 9
Table 5. Process and Period of Submission of Documents for Budget Preparation and Release of Funds to LGUs per JC 2009-1 ● 15
Table 6. Process and Period of Submission of Documents for Budget Preparation and Release of Funds to LGUs per JC 2010-1 ● 17
Table 7. Taxes and Fees Paid to the National Government by Mining Companies (In Pesos) ● 18
Table 8. LGUs' Shares in Mining Taxes(Earmarked Revenues) ● 19
Table 9. LGUs' Shares in Royalty Payments from Mineral Reservations (Earmarked Revenues) ● 20
Table 10. DENR-MGB's Share in Royalty Payments from Mineral Reservations (Earmarked Revenues, Special Account in the General Fund) ● 20
Table 11. Royalty Payments by Mining Companies (In Pesos) ● 20
Table 12. Fees, Charges and Royalties Collected by the DENR-MGB and LGUs, 2007-2011 ● 23
Table 13. Sample Comparative Financial Highlights of a Mining Company ● 26
Table 14. LGU Shares in Special Privilege Tax on Mini-Hydropower (Earmarked Revenues, 2% Share, RA No. 7156) ● 29
Table 15. Renewable Energy Production Gross Power Generation by Plant Type (In MWH) ● 30
Table 16. LGU Shares in Royalties from Energy Resources Production (Earmarked Revenues, General Fund, 40%, PD No. 87) ● 32
Table 17. Petroleum Production (Special Accounts, Automatically Appropriated , Department of Energy) ● 32
Table 18. Coal Production of Semirara Coal Corporation, PD No.972 (Special Accounts, Automatically Appropriated, Department of Energy) ● 33
Table 19. Geothermal Operations of PNOC-EDC, PD1441 (Special Accounts, Automatically Appropriated, Department of Energy) ● 34
Table 20. Fees and Charges, PD1234 (Special Accounts, Automatically Appropriated, Department of Energy) ● 35
Table 21. LGU Shares in Excise Taxes on Virginia-Type Cigarettes ● 37
Table 22. LGU Shares in Excise Taxes on Tobacco Products ● 38
Table 23. Major Forest Products ● 38
Table 24. LGU Shares in Forestry Charges, RA 7160, 40% share ● 39
Table 25. DENR's Earmarked Revenues from NIPAS Collections ● 39
Table 26. LGU Shares in Value Added Tax Collections (General Fund, RA 7643) ● 41
Table 27. LGU Shares in Taxes from Horse Racing (General Fund, RA No. 8407) ● 42
Table 28. LGU Shares in Final Taxes from Special Economic Zones(General Fund) ● 43
Table 29. LGU Shares in Final Taxes from Special Economic Zones (General Fund) ● 43
Table 30. Special Road Funds ● 44
Table 31. Special Local Road Fund ● 44
Table 32. Summary of Tax Methodologies Used by Various Countries ● 48



Preface

This review was conducted and prepared with funding from the United Nations Development Programme (UNDP). The objective was to provide recommendations on how the shares of Local Government Units (LGUs) from the national wealth can be increased. This is the Component 1: *Review of Collection and Distribution of Revenues from Environment and Natural Resources* of the first phase (2011-2012) of the Philippines Poverty Environment Initiative (PPEI).

The Poverty Environment Initiative in the Philippines which started in 2011 was designed to influence institutions, policies and investments towards mainstreaming poverty environment concerns (P/E) into national plans, sectoral strategies, environmental policies, economic decision-making and sub-national planning.

The PPEI aims to ensure that ENR revenues be equitably shared by the communities and re-invested to preserve social and natural capital while effectively enforcing regulatory measures to prevent and minimize environmental impacts of the extractive industries.

This review was conducted and written by Dr. Ma. Cecilia G. Soriano and Ms. Elizabeth P. Makayan. The lead implementing agency is the Department of the Interior and Local Government (DILG). The responsible parties are led by the Department of Finance (DOF), particularly the Bureau of Internal Revenue (BIR), Bureau of Local Government Finance (BLGF) and Bureau of the Treasury (BTr), and include the National Economic and Development Authority (NEDA), Department of the Environment and Natural Resources (DENR) particularly the Mines and Geosciences Bureau (MGB), and Department of Energy (DOE). A technical workshop was held on August 9, 2011 during which the responsible parties drew up their respective action plans together with the consultants. Workshops were held on December 2, 2011 and May 17, 2012 to discuss the findings and recommendations of

the consultants. Meetings and presentations of the review were held with DILG Undersecretary Austere Panadero on April 10, 2012 and the Coordinating Committee on Decentralization on May 18, 2012.

This review could serve as a reference and guide in further improving the operational policies, laws, and governance processes relative to the collection and distribution of ENR revenues. Any comments and enquiries should be directed to:

Ms. Corazon Urquico

Team Leader

Poverty Reduction and Support for MDGs
United Nations Development Programme, Philippines
Tel. No. 901-0227
Email Address: corazon.urquico@undp.org

-or-

Mr. Manuel Q. Gotis, CESO III

Director and Head of DILG/PPEI Project Office
Bureau of Local Government Development,
Department of the Interior and Local Government
T/F No. 927-7852
Email Address: ppei_dilg@yahoo.com