

Philippines revenue sharing

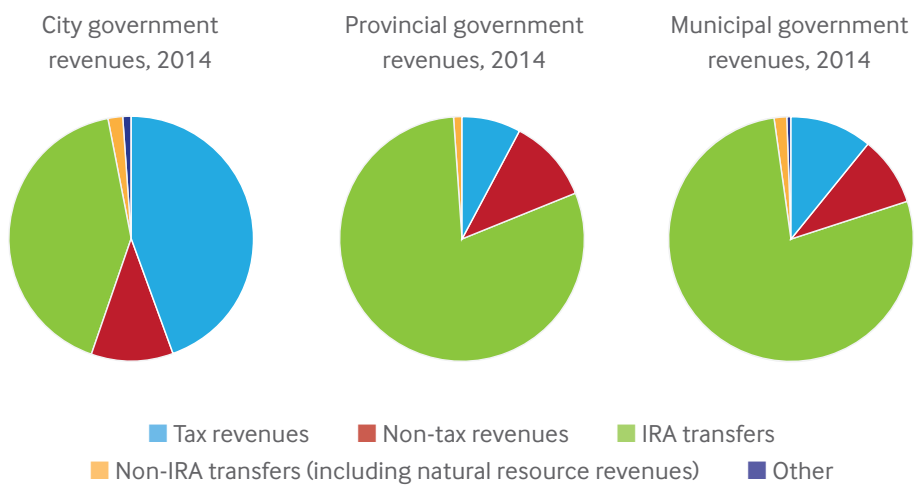
Natural resource activities in the Philippines represent a growing share of the economy. The archipelago boasts sizeable reserves of nickel, gold, silver, copper, zinc and chromite, and currently produces modest quantities of oil and natural gas. Between 2003 and 2013, the official share of minerals in total exports increased from approximately 2 percent to more than 6 percent, though government statistics do not account for severe underreporting of production and extensive illegal mining. The Philippines became a candidate country to the Extractive Industries Transparency Initiative (EITI) in May 2013.

Subnational governments at the township, municipal, and provincial level play an important role in service delivery and local economic development. The smallest administrative units, which number in the tens of thousands, are known as barangays. Cities and municipalities are constituted of multiple barangays. While most city and municipal governments fall under the jurisdiction of the Philippines' 81 provincial governments, 38 highly urbanized cities are administered independently.

The Philippines undertook significant decentralization in 1991 with the enactment of the Local Government Code (LGC), which devolved responsibility for administering local infrastructure and public works, health and hospital services, telecommunications, social welfare and housing, and tourism to subnational governments. The LGC also vests local governments with limited regulatory powers, including authority to issue licenses for small-scale mining, reclassify agricultural lands, apply environmental laws and enforce the national building code.

Expanded operations under this broader mandate are funded largely through transfers from the central government, which accounted for approximately 12 percent of the 2015 national budget. In 2014, payments from the central government accounted for 65 percent of local government units' combined operating income, with local tax and non-tax revenues representing 35 percent of total subnational revenues. Dependence on central government transfers ("IRA and non-IRA transfers" in the chart on the next page) was highest among provincial and municipal governments, averaging nearly 80 percent.





Source of city, provincial and municipal government revenues, 2014

Source: Bureau of Local Government Finance

The 1987 Constitution stipulates that “local governments shall be entitled to an equitable share in the proceeds [...] the national wealth within their respective areas.” The LGC stipulates that subnational governments are entitled to 40 percent of gross mining taxes, royalties, forestry and fishery charges from the preceding fiscal year. If resource extraction is undertaken by a government agency or state-controlled corporation, local government units’ share of extractive revenues is determined by the central government as the greater of: (a) 1 percent sales from the preceding calendar year; or (b) 40 percent of total collections from mining taxes, royalties, forestry and fishery charges, and fees levied in their jurisdiction.

The allocation of resource revenues between province, municipality, city and barangay governments varies depending on location. If natural resources are situated in an independent city, then the city government will receive 65 percent of revenues and the barangay(s) will receive 35 percent of revenues, as illustrated in Figure 2. In the case of resources situated in component cities or municipalities, the provincial government will receive 20 percent of revenues while the municipal government and barangay are apportioned 45 and 35 percent of revenues, respectively. If a natural resources deposit crosses jurisdictional lines, the shares of each jurisdiction are determined based on population (weighted 70 percent) and land area (weighted 30 percent).

	Natural resources extracted in independent city	Natural resources extracted in province
Provincial government		20%
City government	65%	
Municipal government		45%
Barangay government	35%	35%

Distribution of natural resource revenues among LGUs

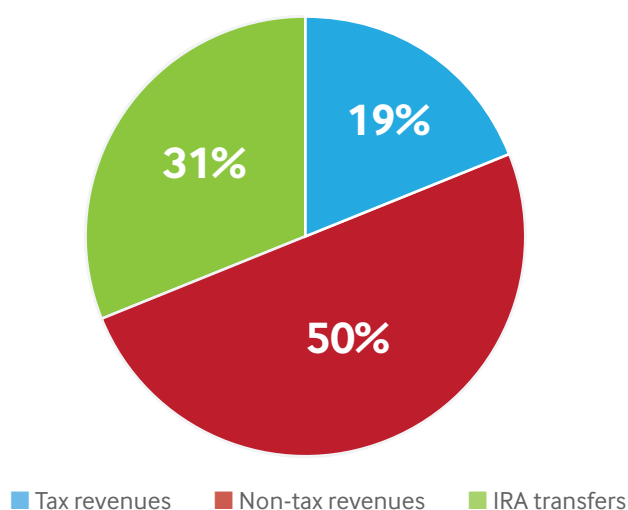
Source: Local Government Code (1991)

Where mining operations occur within the ancestral lands of indigenous peoples, the Philippine Mining Act obliges the operator to pay royalties equal to at least one percent of total to indigenous groups. Under the Indigenous Peoples’ Rights Act, any mining activities in ancestral lands can only be undertaken with free and prior informed consent (FPIC) of the local indigenous peoples, providing some indigenous groups with an opportunity to negotiate higher revenue shares. In practice, few groups collect their entitlements or negotiate higher shares.

The LGC stipulates that “national wealth revenues” must be utilized by subnational governments to finance local development and livelihood projects in consultation with local development councils and elected representatives. At least 80 percent of local government revenues received from hydropower and geothermal projects, for example, are earmarked for projects aimed at lowering electricity costs.

However, the contribution of natural resource wealth to subnational governments’ budgets is usually slight, even in many jurisdictions with significant natural resource wealth. Natural resource transfers are most significant for a small number of municipalities like Claver and Tagana-an, where they account for between 30 and 40 percent of total revenues. But in Surigao Norte—the province where Claver and Tagana-an are located and one that usually receives the most revenues from mining taxes and royalties—subnational natural resource transfers only represented around 8 percent of total operating income in 2014. Subnational governments also receive some revenues directly from local extractive industries, including business and property taxes as well as registration and permitting fees.

Information on natural resource revenue transfers are published by the Philippines Department of Budget and Management (DBM). Data on subnational revenues and expenditures are also available via the Bureau of Local Government Finance (BLGF), though natural resource revenues are not disaggregated in these estimates. In addition to DBM, the calculation and distribution of extractive revenues to local government units involved coordination between multiple national government agencies. This process has routinely prevented the timely disbursement of shares (for example, Figure 3 illustrates delays in excise tax shares). As a result, subnational governments units are often forced to estimate this income during the budgeting period.



Delays in disbursement of natural resource excise tax revenues to local government units, 2012

Source: Extractive Industries Transparency Initiative Scoping Study on Local Revenue Streams and Subnational Implementation

The Natural Resource Governance Institute, an independent, non-profit organization, helps people to realize the benefits of their countries' oil, gas and mineral wealth through applied research, and innovative approaches to capacity development, technical advice and advocacy.
Learn more at www.resourcegovernance.org

