



# **LGU STRATEGIES FOR EXTRACTIVE INDUSTRY REVENUE USE AND MANAGEMENT**

**JHONADHEL A. JACABAN-HERNANDEZ**

Special Investigator III

Bureau of Local Government Finance MIMAROPA Region

09 October 2024



# BACKGROUND

- National Government as the **Main Regulator of Extractive Industry**
- Local Government Units (LGUs) being the host of the mining sites, oil, gas fields, and principal offices of extractive industries, **play an important role in subnational EITI implementation**



# **BACKGROUND**

## **ROLE OF THE LOCAL GOVERNMENT UNITS**

### **in regulating the extractive industries**

- No project or program that would have environmental impact may be implemented in its territory without consultation from the LGUs affected

### **Section 16, LGC**

Every local government unit shall exercise the powers expressly granted, those necessarily implied there from, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.





# **BACKGROUND**

## **ROLE OF THE LOCAL GOVERNMENT UNITS**

### **in regulating the extractive industries**

- In the case of small-scale mining, the DENR-MGB, through the Provincial or City Mining and Regulatory Board (P/CMRB), regulates its operation. Functions include declaring lands as people's small-scale mining areas, awarding contracts, settling claims and disputes in the mining area, and crafting and implementing rules on small-scale mining
- Quarrying in public or private land for building and construction materials requires a permit from the Provincial Governor or City Mayor for ICCs and HUCs but the application must be lodged with the P/CMRB





# LEGAL BASIS

## Section 289, LGC

*Share in the Proceeds from the Development and Utilization of the National Wealth*  
Local government units shall have an equitable share in the proceeds derived from the utilization and development of the national wealth within their respective areas

## SECTION 290, LGC

*Amount of Share of Local Government Units.*

Local government units shall, in addition to the internal revenue allotment, have a share of forty percent (40%) of the gross collection derived by the national government from the preceding fiscal year from mining taxes, royalties, forestry and fishery charges, and such other taxes, fees, or charges, including related surcharges, interests, or fines, and from its share in any co-production, joint venture or production sharing agreement





# TYPES OF NATIONAL WEALTH

TYPE OF COLLECTION	COLLECTING AGENCY
Forest Charges	DENR-OSEC
Royalties from Mineral Reservation	DENR-MGB
Energy Production Resources	Department of Energy
Mining Taxes	Bureau of Internal Revenue



# DISTRIBUTION OF SHARES

## NATURAL RESOURCES LOCATED IN THE PROVINCE

PROVINCE

20%

COMPONENT CITY/MUNICIPALITY

45%

BARANGAY

35%



# DISTRIBUTION OF SHARES

## NATURAL RESOURCES LOCATED IN TWO (2) OR MORE LGUS

POPULATION

70%

LAND AREA

30%



# DISTRIBUTION OF SHARES

## NATURAL RESOURCES LOCATED IN HIGHLY-URBANIZED INDEPENDENT COMPONENT CITY

CITY

65%

BARANGAY

35%



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# USES OF FUND

- SHALL BE USED TO FINANCE LOCAL DEVELOPMENT PROJECTS
- SHALL BE USED TO FINANCE LIVELIHOOD PROJECTS
- PROCEEDS FROM HYDROTHERMAL, GEOTHERMAL AND OTHER ENERGY SOURCES, 80% SHALL BE APPLIED SOLELY TO LOWER COST OF ELECTRICITY WHERE THE ENERGY SOURCE IS LOCATED  
( Sec. 294 of RA 7160, Art. 391 IRR of RA 7160



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# UTILIZATION OF SHARES:

## *LGUs' Actual Practice*

- Shares are used to augment funds for local development projects (included in lump-sum appropriations)
- Shares are accumulated annually to have enough funds for a specific project.
- Benchmark from other LGUs for best practices





# UTILIZATION OF SHARES: *Challenges*

- Minimal amount, hence difficult to appropriate for a specific local development or livelihood projects
- Limited information on the usage of the fund
- No project or program menu given for the shares received
- No liquidation report required by authorities





# LEGAL BASIS OF LOCALLY SOURCED REVENUES

## Sec 5. Article X of the Constitution

Each local government unit shall have the power to create its own sources of revenues and to levy taxes, fees and charges subject to such guidelines and limitations as the Congress may provide, consistent with basic policy of local autonomy. Such taxes, fees and charges shall accrue exclusive to the local government.



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# LEGAL BASIS OF LGUs LOCALLY SOURCED REVENUES

## Section 132, LGC

Every local government unit shall exercise the powers expressly granted, those necessarily implied there from, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

**Ordinance** – intended to permanently direct or control matters applying to persons or things in general, prescribes a permanent rule of conduct of government, binding not only on the inhabitants of the municipality but also on the strangers or non-residents coming into its limits, **can only be amended by an ordinance.**





# TYPES OF TAXES AND FEES BASED ON LOCAL REVENUE CODES

**Direct Payments Made to LGUs by Mining Companies Not Provided by National Statutes**

LOCAL REVENUE	APPLICABLE TO
Mayor's Permit/Business License	Cities and Municipalities
Regulatory/ Administrative Fees/Application/ Verification Fees/ Governor's Permit/ Endorsement Fee	Provinces and Municipalities
Tax on Mining Operations	Provinces, Cities and Municipalities
Environmental Enhancement Fees/ Extraction Fees	Provinces
Hazard Mitigation Fee	Municipalities
Municipal Mining Clearance Fee	Municipalities



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# TYPES OF TAXES AND FEES BASED ON LOCAL REVENUE CODES

**Direct Payments Made to LGUs by Mining Companies Not Provided by National Statutes**

LOCAL REVENUE	APPLICABLE TO
Provincial /Municipal Environmental Compliance Certificate + Verification and Inspection Fees/ Certificate of Non-Coverage Fee	Provinces and Municipalities
Transport Fees	Provinces
Delivery Receipts (including Printing Costs of Delivery Receipts)	Provinces
Miscellaneous Regulatory Fees (Sanitary Inspection Fee, Locational Clearance, Garbage Disposal fee, etc.)	Provinces
Donations/ Grants/ Other Assistance/ Benefits	Provinces, Cities and Municipalities



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# DOF-BLGF REPORTING TOOLS

- LGU Integrated Financial Tool (LIFT)
- Environment and Natural Resources Data Management Tool (ENRDMT)



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## POINTS TO CONSIDER FOR DISCUSSION

- *“Revenue is temporary and its sources exhaustible because it comes from the transformation of a non-renewable asset. To avoid an abrupt fiscal adjustment once resources are depleted, and to enable future generation to benefit, a portion of revenue needs to be saved for future use or invested in assets that will generate future revenue. Resource exhaustibility calls for a long-term fiscal strategy, implemented through robust medium-term expenditure planning and execution systems.” (Roe et. al, n.d)*





## Revisiting the link between resource windfalls and subnational crowding out for local mining economies in Chile

In the case of Chile, Paredes and Rivera (2017) find that for each dollar from mining taxes, the expenditure on public services (recreational or cultural activities) increases by only US\$0.5. Meanwhile, Oyarzo and Paredes (2018) find that mining municipalities have a worse performance in education than non-mining municipalities. Therefore, it is important to highlight to what extent these non-matched grants from windfalls influence the strategic behavior of local governments in regard to tax collection, especially in developing countries.

Source: <https://www.sciencedirect.com/science/article/abs/pii/S0301420719303484>



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# THANK YOU



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