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**THE ROLE OF EITI IN EXTRACTIVE SECTOR
GOVERNANCE: THE PHILIPPINE
EXPERIENCE**

by

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The views expressed are those of the author and do not necessarily reflect the views of
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THE ROLE OF EITI IN EXTRACTIVE SECTOR GOVERNANCE: THE PHILIPPINE EXPERIENCE

Summary of Presentation

1. Overview of Mining Sector in the Philippines
 2. The current mining fiscal regime
 3. Some concerns about the current fiscal regime
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1. The role of EITI and the Philippine context
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1. Conclusion

OVERVIEW OF THE PHILIPPINE MINING SECTOR

GROSS PRODUCTION VALUE: PHP74.2 BILLION

TOTAL MINING INVESTMENT DATA: USD 782.7 MILLION

MINING CONTRIBUTION TO GDP: 0.6%

TOTAL EXPORTS OF MINERALS AND MINERAL PRODUCTS: USD2,673,000

MINING CONTRIBUTION TO TOTAL EMPLOYMENT: 0.7%

TAXES, FEES AND ROYALTIES FROM MINING (2012 DATA): PHP18,777.1 MILLION

OVERVIEW OF THE PHILIPPINE MINING SECTOR

- The Philippines is a highly mineralized country with untapped mineral potential found in 30% of our land area
- Main minerals mined are gold, copper and nickel
- Reasons for low contribution to economy:
 - Small-scale mines
 - New mines that enjoy tax holidays

THE MINING FISCAL REGIME

- Mining regime depends on whether you are operating within a mineral reservation or not
- Also depends on whether you are operating under a MPSA or FTAA:
 - MPSA: Basic mining payments
 - FTAA: Basic payments plus additional government share of 50% of net mining revenue in excess of basic government share paid after the recovery period (i.e. when the net cash flows exceeds the pre-operating expenses)

THE MINING FISCAL REGIME

MAJOR TAXES AND FEES PAID TO NATIONAL GOVERNMENT:

CORPORATE INCOME TAX/MCIT

EXCISE TAX

ROYALTY

FEES PAID TO THE MINES AND GEOSCIENCES BUREAU

WITHHOLDING TAXES

ROYALTIES TO INDIGENOUS PEOPLES

GOVERNMENT SHARE UNDER FTAA

THE MINING FISCAL REGIME

MAJOR TAXES AND FEES PAID TO LOCAL GOVERNMENTS:

LOCAL BUSINESS TAX

REAL PROPERTY TAX

COMMUNITY TAX

RESIDENCE TAX

OCCUPATION FEES

REGISTRATION FEE

PERMIT FEE

OTHER LOCAL TAXES

THE MINING FISCAL REGIME

SOCIAL EXPENDITURES AND SPECIAL FUNDS:

Annual EPEP

Community Development Program

Social Development Management Program

Mine Rehabilitation Fund

Mine Waste and Tailings Reserve Fund

Final Mine Rehabilitation and Decommissioning Fund

Special Allowance payment to claim owners and surface right holders

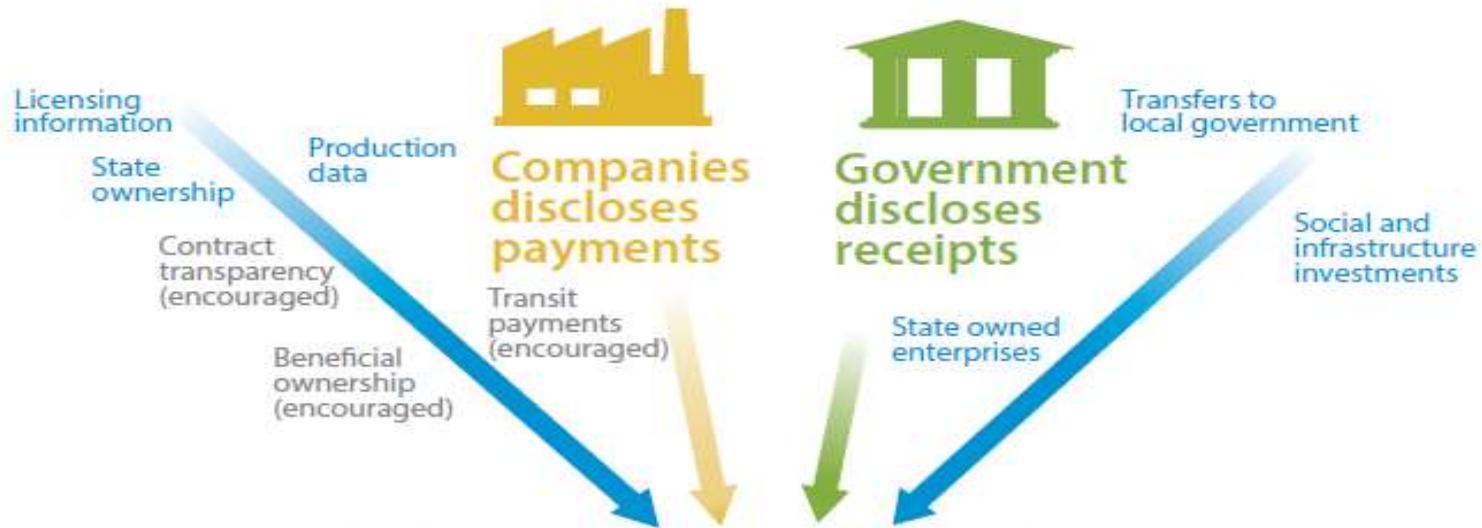
AREAS OF CONCERN

1. GOVERNMENT SHARE
2. LOCAL PAYMENTS
3. SOCIAL EXPENDITURES
4. CONTRIBUTION TO ECONOMY
5. FRAGMENTED REGULATION

ONGOING REFORMS

1. EXECUTIVE ORDER NO. 79 INSTITUTIONALIZING REFORMS IN THE MINING SECTOR
2. RATIONALIZATION OF MINING FISCAL REGIME
3. IMPLEMENTATION OF THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (EITI)

OVERVIEW OF EITI



EITI IMPLEMENTATION IN THE PHILIPPINES

1. ADMISSION AS A CANDIDATE COUNTRY: MAY 22, 2013
2. FORMATION OF A MULTI-STAKEHOLDER GROUP AND REGULAR MEETINGS/CONSULTATIONS
3. FORMULATION OF OBJECTIVES FOR EITI IMPLEMENTATION
4. SUBMISSION OF COUNTRY WORK PLAN TO THE EITI BOARD
5. DATA GATHERING AND RECONCILIATION

EITI IMPLEMENTATION IN THE PHILIPPINES

- PHILIPPINE EITI REPORT TO BE SUBMITTED TO THE EITI INTERNATIONAL BOARD IN DECEMBER 2014

- SCOPE OF THE REPORT:

LARGE-SCALE METALLIC MINING, OIL AND GAS

38 MINING COMPANIES, 11 OIL AND GAS COMPANIES

Role of EITI in improving EI governance in the Philippine Context

OBJECTIVES FOR EITI IMPLEMENTATION IN THE PHILIPPINES:

1. Show direct and indirect contribution of extractives to the economy (through EITI process)
2. Increase public understanding of the management of natural resources and public accessibility of data
3. Strengthen national resource management / strengthen government systems
4. Create opportunities for dialogue and constructive engagement in natural resource management in order to build trust and reduce conflict among stakeholders
5. Strengthen business environment and increase investments

Role of EITI in improving EI governance in the Philippine Context

EITI engages government, business and civil society to examine the following together:

1. Fiscal regime

- Universe of payments
- Cost recoverable items
- Government share/Revenue sharing mechanism

Role of EITI in improving EI governance in the Philippine context

2. Legal and regulatory framework

- What are the laws and is there a need to amend them?
- Capacity of agencies to regulate

3. Local payments

- Scoping of local tax codes

Role of EITI in improving EI governance in the Philippine Context

4. Special Funds: Types, who manages, conditions for use, purpose
5. Gaps in data generation : Level of disaggregation, regularity, quality
6. Subnational transfers: Period, regularity, causes of delay
7. Transparency Issues: Accessibility of data, confidential information, contract disclosure, company waivers

Role of EITI in improving EI governance in the Philippine context

8. Financial tracking

- Collections of agencies from taxes and royalties that go to the national treasury, special funds, community projects, local units, etc.
- Payment mechanisms are illustrated
- Transfers from national government to local governments are tracked
- Role of SOEs are clarified

Role of EITI in improving EI governance in the Philippine context

EITI provides venue for industry to shed light on the following:

1. How much it actually pays to the government
2. How much it pays for social projects (mandatory and non-mandatory)
3. Compliance with licensing process

Role of EITI improving EI governance in the Philippine context

EITI provides venue for CSOs to elevate their concerns regarding the following:

1. Fiscal policies
2. Adequacy of social expenditures and the need to align with local needs
3. Timeliness of subnational transfers
4. Transparency of information
5. Revenue management

Role of EITI in improving EI governance in the Philippine context

EITI enables the government to:

1. Examine current structures
2. Institutionalize reforms
3. Facilitate easier coordination among agencies
4. Provide adequate feedback mechanism
5. Have an evidence-based approach to policy making

CONCLUSION

EITI implementation in the Philippines provides a dynamic transparency mechanism that enables all sectors to engage in a sustained dialogue and examine together relevant issues surrounding the industry. An outcome of the process is the adoption of policies towards structural reforms.

THANK YOU!!!

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