

In the Name of God, the Beneficent, the Merciful

ANNEX ON REVENUE GENERATION AND WEALTH SHARING

1. This Annex on Wealth Sharing forms part of the Framework Agreement between the Government of the Philippines (GPH) and the Moro Islamic Liberation Front (MILF) and outlines and elaborates additional details regarding revenue generation and wealth sharing.
2. The Parties acknowledge that wealth creation (or revenue creation and sourcing) is important for the operation of the Bangsamoro, considering that the Bangsamoro territory is among the most underdeveloped in the Philippines due to the decades-long conflict. Moreover, the existing tax base therein is very limited. There is a need to bridge the financial gap between the Bangsamoro's prospective needs and the revenues being created therein. In this way, the Bangsamoro can catch up with the more progressive areas of the country.
3. The Parties commit to jointly pursue measures to increase the Bangsamoro's revenue generation and wealth creation capacity. The Central Government shall devolve powers to create sources of revenues and to levy taxes, fees and charges for the Bangsamoro Government to attain the highest form of fiscal autonomy. The power of the Bangsamoro to create its sources of revenues and to levy taxes, fees and charges shall be guided by the principles of devolution of powers, equalization, equity, accountability, administrative simplicity, harmonization, economic efficiency and fiscal autonomy.

I. Taxation

A. Taxing Powers

1. All taxing powers already devolved to the ARMM by R.A. No. 9054 and other legislations shall be exercised by the Bangsamoro.
2. Where all taxable elements are within the Bangsamoro, capital gains tax, documentary stamp tax, donor's tax and estate tax, shall be levied by the Bangsamoro and not by the national Bureau of Internal Revenue (BIR), and the same shall be provided in the Basic Law. Where all taxable elements are not situated entirely within the Bangsamoro, the intergovernmental fiscal policy board shall address problems relating to implementation.

Copies of the returns on the said taxable elements shall be provided to the national BIR for purposes of implementing number 3 below.

3. Revenues from the additional taxes beyond those already devolved to the ARMM and the Bangsamoro share in revenues derived from exploration, development and utilization of natural resources will be deducted from the amount comprising the annual block grant. This is without prejudice to the just share of the Bangsamoro's constituent local government units in the national taxes.

These deductions shall be suspended for four years from the full operation of the Bangsamoro.

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4. Central Government taxes, fees and charges collected in the Bangsamoro, other than tariff and customs duties, shall be shared as follows:

- a. Twenty five (25%) percent to the Central Government
- b. Seventy five (75%) percent to the Bangsamoro, including the shares of the local government units.

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The Bangsamoro Basic Law may provide that the twenty-five percent (25%) due to the Central Government will be remitted to the Bangsamoro for a limited period of time.

5. To encourage investments and other economic activities, the Bangsamoro Government shall have the power to grant tax exemptions, rebates, tax holidays and other incentives with reference to Part C below. The Bangsamoro may also opt instead to impose a

flat rate lump sum tax on small and medium enterprises.

6. The Bangsamoro shall have the power to establish offices for the purpose of assessing and collecting the taxes mentioned herein.

7. The Central Government shall extend assistance to the Bangsamoro Government in the matter of tax administration and fiscal management. This assistance shall include capacity building and training programs.

B. In enacting revenue-raising measures, the Bangsamoro shall observe the principles of uniformity and equity in taxation and shall not impose confiscatory taxes or fees of any kind.

C. All powers over taxes and revenue generation already granted to the ARMM under the Republic Act No. 9054 and other legislations and issuances, including those powers and functions devolved to the ARMM Regional Board of Investments, shall be transferred to the Bangsamoro.

II. Other Sources of Revenue

A. Government income derived from the operations of Bangsamoro government-owned and -controlled corporations, financial institutions, economic zones, and freeports operating therein, shall go to the Bangsamoro Government.

B. The Bangsamoro shall have authority and control over existing government-owned and -controlled corporations and financial institutions operating exclusively in the Bangsamoro territory, after determination by the intergovernmental fiscal policy board of its feasibility.

C. An intergovernmental mechanism shall be created to determine the participation of the Bangsamoro in the ownership and management of Al-Amanah Islamic Investment Bank of the Philippines and the Southern Philippines Development Authority (SPDA).

D. The Bangsamoro Government shall be represented in the board of directors or in the policy-making bodies of government-owned or -controlled corporations that operate a substantial portion of their businesses directly or through their subsidiaries in the Bangsamoro or where the Bangsamoro has substantial interest. The manner of such representation shall be determined in the Basic Law.

E. The intergovernmental fiscal policy board shall determine the

participation of the Bangsamoro Government in the results of operations of government-owned or -controlled corporations and its subsidiaries operating in the Bangsamoro. It shall also determine a formula for the share of the Bangsamoro Government from the results of said operations.

F. The Bangsamoro may receive grants derived from economic agreements entered into or authorized by the Bangsamoro Assembly (donations, endowments, and other forms of aid), subject to the reserved powers of the Central Government over foreign affairs.

G. The Bangsamoro shall also be entitled to benefits resulting from conventions to which the Central Government is a party.

III. Fees and Charges

The Bangsamoro will have the power to levy fees and charges pursuant to the powers and functions that it shall exercise in accordance with the list of concurrent and exclusive powers in the Annex on Power-Sharing, including powers already granted under Republic Act No. 9054 and other legislations.

IV. Grants and Donations

Grants from donors shall be received directly by the Bangsamoro Government and shall be used solely for the purpose for which they were received, if donors specify such purpose.

V. Fund Transfers from Central Government

A. The Central Government shall provide a block grant to the Bangsamoro. The Bangsamoro block grant shall be based on a formula provided in the Bangsamoro Basic Law which in no case shall be less than the last budget received by the ARMM immediately before the establishment of the Bangsamoro Transition Authority. The Basic Law shall also provide a system of automatic appropriation for and regular release of the block grant. The formula shall be subject to review by the Central Government and the Bangsamoro Government after ten (10) years, on the basis of need and actual revenues generated.

B. The Central Government shall also provide for a Special Development Fund to the Bangsamoro for rehabilitation and development purposes upon the ratification of the Bangsamoro Basic Law. The amount of the

Fund that shall be proposed by the Transition Commission in the drafting of the Bangsamoro Basic Law shall be recommended by a joint needs assessment team to be created by the panels for this purpose.

C. The Bangsamoro Government's annual block grant shall undergo internal budget processes and shall be allocated by the Bangsamoro Government in an appropriations act.

D. Once the Bangsamoro attains financial self-sustainability, it will also assist other regions in their development efforts.

VI. Contracting of Loans and Overseas Development Assistance (ODA)

The Bangsamoro shall have the authority to contract loans, credits, and other forms of indebtedness with any government or private bank and other lending institutions, except those requiring sovereign guaranty, which require Central Government approval. The Central Government shall assist the Bangsamoro in complying with the requirements for a speedy issuance of the sovereign guaranty, to finance local infrastructure and other socio-economic development projects in accordance with Bangsamoro-approved development plan.

The Bangsamoro is also authorized to issue bonds, debentures, securities, collaterals, notes and obligations to finance self-liquidating, income producing development or livelihood projects pursuant to the priorities established in its approved development plan.

Overseas Development Assistance (ODA) shall be availed of by the Bangsamoro to achieve inclusive growth and poverty reduction, particularly through the implementation of priority development projects for the attainment of the Millennium Development Goals.

In pursuit of its development goals, the Bangsamoro may enter into build-operate-transfer type arrangements under public-private partnerships for the financing, construction, operation and maintenance of any financially viable infrastructure facilities. These arrangements may likewise be supported by foreign or domestic loans, in accordance with relevant laws.

The Bangsamoro shall appropriate in its annual budget such amounts as are sufficient to pay their loans and other indebtedness incurred. The Bangsamoro may also redeem or retire bonds, debentures, notes and other obligations.

The Bangsamoro may borrow from government financial institutions when it needs to finance its development needs.

VII. Natural Resources

Government income derived from the exploration, development and utilization of all natural resources within the Bangsamoro shall be allocated as follows:

1. With respect to non-metallic minerals (sand, gravel, and quarry resources) within the Bangsamoro, such revenues shall pertain to the Bangsamoro and its local government units.
2. With respect to metallic minerals within the Bangsamoro, seventy-five percent (75%) of such revenues shall pertain to the Bangsamoro.
3. With respect to fossil fuels (petroleum, natural gas, and coal) and uranium, the same shall be shared equally between the Central and Bangsamoro governments. Both Parties shall endeavor to provide for a review mechanism in the Basic Law with regard to this sharing arrangement.

The shares of the Bangsamoro above shall include those for its constituent local government units, as shall be provided by law.

The Bangsamoro Sustainable Development Body referred to in the Framework Agreement (Part IV, Sec. 8) shall get funding support from the proceeds of the revenues collected from these sources.

VIII. Additional Fiscal Powers

Both parties recognize the Bangsamoro aspiration for the exercise of additional fiscal powers in order to reach full fiscal autonomy and shall cooperate towards achieving this goal through necessary processes and modalities.

IX. Auditing Body

The Bangsamoro auditing body shall have auditing responsibility over public funds utilized by the Bangsamoro. The Bangsamoro Basic Law shall provide for a clear delineation of the Bangsamoro auditing body.

This should be without prejudice to the power, authority and duty of the national Commission on Audit to examine, audit and settle all accounts pertaining to the revenues and the use of funds and property owned and held in trust by any government instrumentality, including GOCCs.

The Bangsamoro shall ensure transparency mechanisms consistent with open government practices.

X. Intergovernmental Fiscal Policy Board

The intergovernmental fiscal policy board shall be composed of the heads and/or representatives of the appropriate ministries and offices in the Bangsamoro Government. The Central Government shall likewise be represented in the Board until full fiscal autonomy is achieved. The board may create a secretariat and sub-committees as it may deem necessary.

To address revenue imbalances and fluctuations in regional financial needs and revenue-raising capacity of the Bangsamoro, the Board shall undertake periodic review of the taxing powers, tax base and rates of the Bangsamoro Government, wealth sharing arrangements, sources of revenues, vis-a-vis the development needs of the Bangsamoro. An annual report shall be submitted by the body to the Central Government and the Bangsamoro Government.

XI. Bangsamoro Development Plan

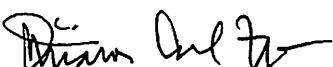
The Bangsamoro shall formulate its development plans, consistent with national development goals but recognizing their unique needs and aspirations. Towards this end, the Bangsamoro may participate in national development planning. The plan shall also consider the revenue generation efforts needed for the post-conflict rehabilitation, reconstruction, and development in the region.

XII. Gender and Development

In the utilization of public funds, the Bangsamoro shall ensure that the needs of women and men are adequately addressed. For this purpose, the Bangsamoro shall set aside at least 5% of the official development funds that it receives for support programs and activities for women in accordance with a gender and development plan.

Done this 13th day of July 2013 in Kuala Lumpur, Malaysia.

FOR THE GPH:


PROF. MIRIAM CORONEL-FERRER
GPH Panel Chair

FOR THE MILF:


MR. MOHAGHER IQBAL
MILF Panel Chair

SIGNED IN THE PRESENCE OF:


TENGKU DATO' AB GHAFAR TENGKU MOHAMED
Malaysian Facilitator