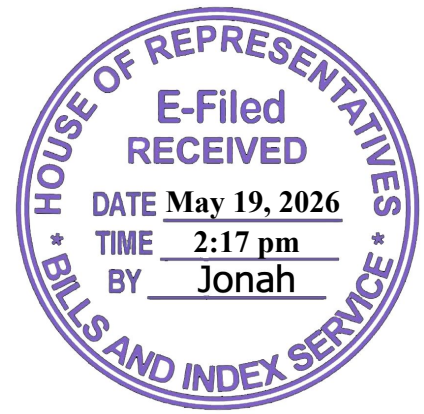


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
First Regular Session

House Bill No. **9313**



Introduced by **Representative ERIC G. YAP**

EXPLANATORY NOTE

This bill seeks to establish an Environmental Service Premium (ESP) for local government units (LGUs) hosting critical watersheds, recognize ecological services as a basis for fiscal equity, and include critical watershed areas as a factor in the computation of the National Tax Allotment under Republic Act No. 7160, otherwise known as "*The Local Government Code of 1991*". It advances a policy framework that compensates environmental stewardship, strengthens climate resilience, and supports sustainable development in communities that bear the responsibility of protecting the country's vital water resources.

Across the country, watershed-hosting LGUs carry the burden of protecting forests, regulating land use, and preventing environmental degradation despite limited fiscal capacity. Watershed areas cover about seventy percent (70%) of the Philippines' land area and serve as critical sources of water for domestic, agricultural, and industrial use¹. At the same time, more than half of key river basins remain unprotected, while only about twenty two percent (22%) of land area enjoys formal protection status, exposing vast watershed areas to deforestation, erosion, flooding, and biodiversity loss². The Department of Environment and Natural Resources has identified millions of hectares of watershed areas as highly vulnerable to degradation, with consequences that include water shortages, reduced agricultural productivity, and increased disaster risks. Real-world impacts already manifest in major water systems such as the Ipo watershed, which supplies around ninety six percent (96%) of Metro Manila's water yet has experienced a significant decline in forest cover, weakening its ecological stability³. Despite these, the current fiscal framework under the Local Government Code does not account for

¹ Japan International Cooperation Agency. (2022, August 1). *JICA-DENR partnership on forestry helps sustain watershed management and efforts of upland communities in PH*. JICA Philippines. Accessed from: https://www.jica.go.jp/english/overseas/philippine/information/press/2022/220801_02.html on 27 April 2026.

² Candano, R. (2024, May 21). *Current state of watershed in the Philippines*. PCAARRD's ISP-IS. Accessed from: <https://ispweb.pcaarrd.dost.gov.ph/current-state-of-watershed-in-the-philippines/> on 27 April 2026.

³ World Wide Fund for Nature. (N.D.). *IPO Watershed*. WWF Philippines. Accessed from: <https://archive.wwf.org.ph/what-we-do/water/ipo-watershed/> on 27 April 2026.

environmental services rendered by LGUs, resulting in a mismatch where communities that protect vital ecosystems receive little to no compensation.

This proposed measure institutionalizes an Environmental Service Premium and the integration of watershed areas into the National Tax Allotment formula. It establishes a more equitable fiscal mechanism that recognizes ecological contributions as a measurable basis for resource distribution. It also provides clear criteria for allocation and ensures that funds support watershed rehabilitation, climate adaptation, disaster risk reduction, and sustainable livelihoods. These reforms align fiscal policy with environmental governance and create stronger incentives for LGUs to actively protect and manage critical ecosystems.

This measure responds to an urgent national reality. Watersheds sustain cities, irrigate farms, generate power, and shield communities from floods and droughts, yet the LGUs that protect them often struggle with limited resources and competing demands for development. Every degraded watershed places millions at risk of water scarcity and disaster. Every neglected forest weakens the country's resilience against climate change. This bill asserts that environmental stewardship deserves recognition, not neglect. It declares that those who protect the nation's lifelines must no longer stand alone. The passage of this measure affirms a simple but powerful principle: the survival of communities, the security of water, and the future of the nation depend on how decisively we act today.

In view of the foregoing, the immediate passage of this bill is earnestly sought.



HON. ERIC G. YAP

Republic of the Philippines
HOUSE OF REPRESENTATIVES
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TWENTIETH CONGRESS
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House Bill No. **9313**

Introduced by **Representative ERIC G. YAP**

AN ACT

ESTABLISHING AN ENVIRONMENTAL SERVICE PREMIUM FOR LOCAL GOVERNMENT UNITS HOSTING CRITICAL WATERSHEDS, PROVIDING FOR THE INCLUSION OF CRITICAL WATERSHED AREAS IN THE COMPUTATION OF THE NATIONAL TAX ALLOTMENT, AMENDING FOR THE PURPOSE REPUBLIC ACT NO. 7160, OTHERWISE KNOWN AS “THE LOCAL GOVERNMENT CODE OF 1991”, AND FOR OTHER PURPOSES

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

Section 1. *Short Title.* – This Act shall be known as the “*Environmental Service Premium and Watershed Equity Act.*”

SEC. 2. *Declaration of Policy.* – It is hereby declared the policy of the State to promote equitable fiscal distribution among local government units (LGUs) by recognizing not only population and land area, but also the ecological burdens and responsibilities brought by certain jurisdictions. Further, the State affirms the need to recognize and compensate for the ecosystem services provided by LGUs hosting critical watersheds, which play a vital role in water security, biodiversity conservation, climate regulation, and disaster risk reduction.

Toward this end, the State shall strengthen environmental protection and climate resilience by incentivizing sustainable land use and watershed conservation. It also supports participatory and inclusive governance that recognizes the role of Indigenous Peoples and local communities as primary stewards of these ecosystems.

SEC. 3. *Definition of Terms.* – As used in this Act:

a. Critical Watershed refers to a drainage area of a river system supporting existing and proposed hydro-electric power, irrigation works or domestic water facilities needing immediate rehabilitation as it is being subjected to a fast rate of denudation causing accelerated erosion and destructive floods. This shall include areas declared as such by law, executive issuance, or certified by the Department of Environment and Natural Resources (DENR),

pursuant to Presidential Decree No. 389, entitled "*Codifying, Revising, and Updating all Forestry Laws and For Other Purposes*", as amended;

b. Environmental Service Premium (ESP) refers to the additional share granted to LGUs hosting critical watersheds in recognition of ecological services and stewardship obligations; and

c. Host LGU refers to any province, city, municipality, or barangay with territorial jurisdiction over all or part of a certified critical watershed.

SEC. 4. *Inclusion in National Tax Allotment Formula.* – In addition to the factors currently provided under existing laws, certified critical watershed areas shall be considered as an additional factor in the computation of the National Tax Allotment of host LGUs.

Congress shall determine the percentage weight of such factor upon the recommendation of the Department of Budget and Management (DBM), DENR, Department of Economy, Planning and Development (DEPDev), and Department of the Interior and Local Government (DILG) following technical studies and stakeholder consultations.

SEC. 5. *Environmental Service Premium.* – There is hereby established an Environmental Service Premium to be granted annually to qualified host LGUs, sourced from appropriations authorized by Congress or from a designated portion of the National Tax Allotment pool as may be provided by law. The ESP shall be distributed based on:

- a. Size of certified watershed area;
- b. Ecological significance and vulnerability;
- c. Performance in conservation and environmental compliance;
- d. Presence of indigenous stewardship systems; and
- e. Other criteria to be determined under the Implementing Rules and Regulations.

SEC. 6. *Use of Funds.* – Amounts received under this Act shall be used exclusively for:

- a. Watershed rehabilitation and forest protection;
- b. Climate adaptation and disaster risk reduction projects;
- c. Sustainable livelihood programs for affected communities;
- d. Indigenous Peoples' environmental stewardship support;

- e. Water resource management and monitoring systems; and
- f. Other related environmental programs.

SEC. 7. *Multidisciplinary Feasibility Study and Technical Review.* – Within one (1) year from the effectivity of this Act, the DBM, DENR, DILG, and DEPDev shall jointly conduct a multidisciplinary technical feasibility study and fiscal impact assessment for the phased implementation of the Environmental Service Premium and revised NTA formula.

SEC 8. *Transparency and Accountability.* – All funds released under this Act shall be subject to accounting, auditing, and public disclosure requirements under existing laws. LGUs shall submit annual utilization and performance reports.

SEC. 9. *Implementing Rules and Regulations.* – Within one hundred twenty (120) days from the effectivity of this Act, the DBM, DENR, DILG, DEPDev, and the Department of Finance shall promulgate the necessary rules and regulations for the effective implementation of this Act.

SEC. 10. *Separability Clause.* – If any provision of this Act is declared unconstitutional or invalid, the remaining provisions not affected thereby shall remain in full force and effect.

SEC. 11. *Repealing Clause.* – All laws, decrees, executive orders, rules and regulations inconsistent with this Act are hereby repealed or modified accordingly.

SEC. 12. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the Official Gazette, or in a newspaper of general circulation.

Approved,