



MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform the Congress of our intent to provide funding of up to US \$433,910,000 for a Millennium Challenge Compact with the Republic of the Philippines.

Obligation of funds may be incurred on or after 15 days from the date of this notification.

The attached notification is being sent to Congress on August 5, 2010.

Sincerely,

T. Charles Cooper
Vice President
Congressional and Public Affairs

Enclosure:
As stated

CONGRESSIONAL NOTIFICATION
August 5, 2010

PROGRAM:	Eligible Countries
APPROPRATIONS CATEGORY:	Fiscal Year 2010 Program Funds
OBLIGATION AMOUNT:	\$433,910,000

The Millennium Challenge Corporation (“MCC”) wishes to notify the Congress of its intent to sign a Millennium Challenge Compact (“Compact”) with the Republic of the Philippines (“Philippines”), through which MCC will grant up to a total amount of \$433,910,000 under the Millennium Challenge Act of 2003, as amended (the “Act”). In order to accelerate implementation of the Compact, MCC intends to obligate up to \$25,060,000 (“Compact Implementation Funding”) of the overall grant under section 609(g) of the Act, using fiscal year 2010 funds, when the Compact is signed by the parties. MCC intends to obligate up to \$408,850,000 under section 605 of the Act when the Compact enters into force. After the Compact enters into force, Compact Implementation Funding that is not needed to accelerate implementation of the Compact may be deobligated, and up to an equivalent amount of funding may be obligated under section 605 of the Act. Such funding is included in the total amount of MCC funds under the Compact and will not increase total Compact funding.

Compact funding will support three projects: (1) a revenue administration improvement project; (2) road rehabilitation; and (3) a community-driven development project, each of which is described along with other key elements of the Compact in the accompanying summary.

SUPPLEMENTAL INFORMATION

MILLENNIUM CHALLENGE COMPACT BETWEEN THE UNITED STATES OF AMERICA, ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION, AND THE REPUBLIC OF THE PHILIPPINES

The Millennium Challenge Corporation's Board of Directors has approved a five-year, \$434 million compact with the Government of Republic of the Philippines ("GRP") aimed at reducing poverty and accelerating economic growth ("Compact"). The Compact is intended to support: (i) reforms and investments to modernize the Bureau of Internal Revenue to increase fiscal space for public investment and to reduce opportunities for corruption in tax administration; (ii) expansion and improvement of a community-driven development project, Kalahi-CIDSS; and (iii) rehabilitation of a secondary national road in Samar province. These projects (i) align closely with the Philippines' constraints to growth analysis and other GRP development plans; (ii) directly support MCC's mission to promote poverty reduction through economic growth; (iii) have a robust economic rate of return; (iv) have a significant number of poor beneficiaries; (v) are technically, environmentally, and socially sound; and (vi) can be completed within five years.

MCC has discussed the Compact projects and implementation arrangements in great detail with the incoming Aquino Administration, which has endorsed the Compact and provided statements in support.

I. Program Overview

Revenue Administration Reform Project (\$54.3 million)

The Revenue Administration Reform Project addresses two problems: (i) the need to raise tax revenues and (ii) the need to reduce tax evasion and revenue agent-related corruption. A key constraint to economic growth in the Philippines is the lack of fiscal space¹ for growth-enhancing investments in public goods such as infrastructure and social services (*e.g.*, education and health). This project will focus on the Bureau of Internal Revenue within the Department of Finance to increase the efficiency and sustainability of revenue collection through a redesign and computerization of business processes, thereby helping to relieve some pressure on the GRP's fiscal position. This project will narrow the gap between potential and actual collections by reducing the discretion of individual revenue (*i.e.*, tax and customs) collection officers, and help improve the predictability and impartiality with which revenue laws and regulations are enforced. Some of these activities are extensions of the Philippines' threshold program activities that concluded in May 2009.

Kalahi-CIDSS (\$120 million)

The Kalahi-CIDSS² project will improve welfare in rural areas by targeting communities where poverty incidence exceeds the national average for small-scale, community-driven development

¹ The severity of the constraint is underscored by levels of public sector infrastructure investment and government development expenditures (as a percentage of gross domestic product) which are among the lowest in Southeast Asia.

² Kapit bisig Laban sa Kahirapan (translated from Tagalog as: "Linking Arms Against Poverty") – Comprehensive Integrated Delivery of Social Services.

projects. The project does this through the direct provision of infrastructure and services associated with community-selected and managed sub-projects, strengthened community participation in development and governance activities at the village and municipal level, and improved responsiveness of local government to community needs. The project will build on and support the application of the participatory planning, implementation, and evaluation methodology developed by GRP's Department of Social Welfare and Development (DSWD) in collaboration with the World Bank.

Grants for the community sub-projects are provided directly to the local communities, which are responsible for sub-project selection, the procurement of goods and services for their sub-project, and, in most cases, the operations and maintenance of the physical assets. DSWD will implement the project, overseen by a National Steering Committee that includes representatives from government departments and NGOs, and in collaboration with local governments.

Typical sub-projects will include small-scale transportation infrastructure such as village access roads and bridges, school buildings, health clinics, drinking water systems, pre- and post-harvest facilities, and other economic assets.

Secondary National Roads Development Project (\$214.4 million)

The Secondary National Roads Development Project is designed to reduce transportation costs through the rehabilitation of an existing 222 kilometer road segment. By bringing about savings in vehicle operating cost and time for both passengers and goods, and by reducing road maintenance costs, the investment will facilitate increased commerce in and between the provinces of Samar and Eastern Samar, and ultimately contribute to the compact's objective of increasing incomes.

This project will incorporate enhanced safety measures in the final road designs, including: (i) paved shoulders intended to improve conditions for vehicles and provide space for pedestrians; (ii) construction of sidewalks and curbs where pedestrian activity is higher, such as near schools and other public facilities; (iii) improved gateway treatments to indicate where lower speeds are required, typically in more developed communities and urban areas; and (iv) increased use of road narrowing, median islands, and traffic humps to slow traffic speeds.

II. Program Cost

Table 1 displays total costs and breaks out MCC compact funding and GRP contributions.

Table 1: Philippines Compact Budget

Philippines Compact Budget (USD millions)			
Projects/Funding Categories	GRP Contribution	MCC Contribution (Compact)	Total (Compact + GRP Contribution)
Revenue Administration Reform Project	*	54.30	54.30
Kalahi-CIDSS	47.90	120.00	167.90
Secondary National Roads Development Project	7.70	214.4	222.14
Monitoring and Evaluation		8.26	8.26
Program Admin and Oversight	2.50	36.91	39.41
TOTALS	58.10	433.91	492.01

* The Department of Finance committed to increase staffing

III. Economic and Beneficiary Analysis

The Compact projects are expected to have robust and demonstrable impacts on incomes of Filipinos—particularly the poor—and on overall economic growth. The economic case for the projects is built on the close alignment of program logic and objectives with the results of the constraints to growth analysis. The Compact projects reflect GRP's priorities, are endorsed by the GRP agencies that will implement them, and respond to articulated public demands for improved public administration, investment, and service provision. These are necessary and significant conditions for sustained administrative and political support of MCC's investment and lay the groundwork for effective project implementation. Finally, consistent with MCC's results-focused approach, the Compact allows for careful monitoring of implementation progress and rigorous evaluation of the nature and magnitude of selected project impacts.

Table 2 depicts a summary of key statistics characterizing the expected impacts of the Compact on economic growth and poverty in the Philippines.

Table 2: Summary of Economic Impacts

Project	MCC Project Cost (\$M)	Economic Rate of Return (%)	Beneficiaries (by 2030)	Of Which, Percent Poor	Present Value of Benefits Over 20 Years (2005 PPP \$M)	Of Which, Percent to Poor	Present Value of Benefits to Poor Over 20 Years (2005 PPP \$ M)	Benefits to Poor, Percent of Annual Consumption
Revenue Administration Reform Project	54	40%	<i>national*</i>	28%	616	11%	66	0.4%
Kalahi-CIDSS	120	13%	5,215,000	39%	232	18%	41	3.9%
Secondary National Roads Development Project	214	14%	282,000	42%	266	20%	53	86.5%
Total Compact	389	20%	<i>national*</i>	28%	1,114	14%	161	0.9%

* *The Revenue Administration Reform Project* is expected to have broad impacts throughout the economy, thus making nearly all citizens project beneficiaries.