



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to obligate up to \$750,000 to facilitate the development and implementation of a Millennium Challenge Compact with the Government of the Philippines.

The attached notification is being sent to the Congress on January 28, 2015. Obligation of funds may be incurred on or after 15 days from the date of this notification.

In addition, we have attached supplemental information that further describes the planned use of the funds.

Sincerely,

/s/

Paul Weinberger
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

January 28, 2015

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Year 2015 Program Funds
OBLIGATION AMOUNT:	\$750,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2015, this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$750,000 under Section 609(g) of the Millennium Challenge Act of 2003, as amended, for the purpose of facilitating the development and implementation of a Millennium Challenge Compact (“Compact”) with the Government of the Philippines.

MCC plans to finance initial administrative expenses required to ensure prompt and comprehensive completion of compact development preliminary analysis activities, including without limitation completion of an economic constraints analysis and initial sector analyses for identified binding constraints.

SUPPLEMENTAL INFORMATION

MCC 609(g) Initial Engagement Expenses for Philippines

Background

MCC's Board of Directors selected Philippines as eligible to develop a compact program on December 10, 2014. The Philippines once again met MCC's scorecard criteria in FY 2015, despite graduating to lower middle income ("LMIC") status in FY 2012, where the standards are higher and therefore more difficult to meet. The Philippines' improvement has been most notable on the Control of Corruption indicator, on which it improved from the 24th to 61st percentile in just three years. The country is on track to successfully complete its current compact, which focuses on reducing transportation costs through road rehabilitation, as well as bringing efficiencies to tax collection and investing in small-scale, community-driven development projects.

Planned 609(g) Expenses

MCC's compact development process begins with a diagnostic analysis intended to identify a country's binding constraints to economic growth (the "Constraints Analysis"). Timely completion of the Constraints Analysis and agreement on binding constraints, as well as completion of related public consultations and initial sector assessments, represents a critical, initial milestone in MCC's compact development process.

MCC intends to use 609(g) funding to finance initial administrative expenses necessary to ensure timely completion of a comprehensive Constraints Analysis and related analyses. Such expenses may include, without limitation: initial salaries for critical, dedicated technical experts, such as economists, social, gender and private sector experts, monitoring and evaluation expertise, and a designated national coordinator; support for public consultations; and related administrative expenses ("Initial Engagement Expenses"). Early support for the Initial Engagement Expenses will ensure that the Philippines and MCC have access to the technical expertise needed to conduct a rigorous Constraints Analysis, as well as related analyses, thereby setting the stage for robust project proposal(s) and facilitating the development of an MCC compact.

Update and Sustainability of First Compact

The Millennium Challenge Corporation's five-year, \$433.9 million compact with the Government of Republic of the Philippines, signed on September 23, 2010, is supporting reforms and investments to modernize the Bureau of Internal Revenue, expand and improve a community-driven development project, Kalahi-CIDSS, and rehabilitate a secondary national road in Samar province. The compact is in its fourth year of implementation, and funding three major projects.

Secondary National Roads Development Project ("SNRDP") (\$214.4 million) is reducing transportation costs and improving access to markets and social services through the rehabilitation of a 220 km road segment on Samar Island, one of the poorest areas in the Philippines.

This road, which passes through 15 municipalities, will improve access to markets and services for farmers, fishers, and small businesses in some of the poorest provinces in the Philippines. The segments were procured on schedule and according to MCC's procurement guidelines. Despite a very challenging working environment, in terms of physical conditions as well as climatic events, the first, of four contract packages, was completed on schedule. The remaining three contract packages are currently under construction. In collaboration with findings from International Road Assessment Programme ("iRAP"), the road design incorporated safety-enhancing characteristics. In addition, improved standards from the Department of Public Works and Highways were included that contribute to a more climate-resilient road; the road was only minimally impacted by the strongest typhoon to ever make landfall (Typhoon Yolanda). Moreover, in recognizing the province of Eastern Samar, specifically, as a source of trafficking in persons ("TIP") victims, MCA-Philippines has undertaken efforts to emphasize MCC's Counter-Trafficking in Persons policy to SNRDP contractors and to educate local communities on human trafficking and ways to prevent it. MCA-Philippines efforts' are serving as a model, as well as assisting in the future development of local protection mechanisms, including the creation of local councils against trafficking as mandated by the national government. The local councils will serve as the main coordinating body at the local level leading the implementation of anti-trafficking laws, monitoring of trafficking incidences, provision of services to victims and investigation and prosecution of cases.

Kalahi-CIDSS, Comprehensive and Integrated Delivery of Social Services Project ("K-C") (\$120.0 million) is a community-driven development model that addresses needs for basic infrastructure and social services through projects prioritized and implemented by the communities themselves.

The project provides community grants to support community capacity building, resulting in the construction of critical infrastructure such as water systems, clinics, and schools. This innovative project design strengthens local accountability and allows poor communities to effectively design and transparently manage the projects they need to increase their incomes and improve their lives. With a target of 2,740 sub projects completed with Compact funding, K-C is expected to surpass this goal with less than two years remaining in the Compact. The Government of the Philippines has made K-C a national model for development project planning and implementation with a focus on inclusive development and poverty alleviation. The nationwide roll-out has incorporated Compact-introduced enhancements to the program, such as environmental safeguards, enhanced methods of design and construction, and initiatives to support gender integration into project design and implementation.

Revenue Administration Reform Project ("RARP") (\$54.3 million) is modernizing revenue administration and mitigating risks of corruption within the Bureau of Internal Revenue ("BIR") and the Department of Finance ("DOF").

This project will bolster the effectiveness of revenue collection and reduce opportunities for corruption, as the activities include the development of an Electronic Tax Information System ("eTIS"), the enhancement of Computer-assisted Automated Auditing Tools and Techniques, enhancement of the anti-graft capabilities within DOF through support to the Revenue Integrity Protection Service ("RIPS"), and a Public Awareness Campaign ("PAC") to educate BIR staff and

the public on the reforms within BIR and tax compliance requirements. RARP is intended to have nationwide impact by raising tax revenues and reducing tax evasion and related corruption so that the government has increased revenue for public investment, such as infrastructure, health and education. The compact also funds a partnership with the International Monetary Fund (“IMF”) to provide technical assistance to BIR. Through this assistance, and with strong leadership from BIR’s commissioner, preliminary data shows the project is delivering results, helping improve revenue collection to record levels and reduce the gap between potential and actual tax collection. Project accomplishments to date include reengineering BIR’s core functions, which will facilitate the implementation of eTIS as well as improve overall efficiency in tax administration, development of the initial deliverables of eTIS, and a nationwide roll-out of the PAC, which has attracted widespread media attention. The compact has also partnered with the United States Treasury Office of Technical Assistance to improve the organization and operation of BIR’s data processing divisions.