



MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you of the intent to provide up to \$5,570,000 to facilitate the development of a Millennium Challenge Compact with the Government of the Republic of the Philippines.

The attached notification is being sent to the Congress on September 3, 2009. Obligation of funds may be incurred on or after fifteen days from the date of this notification.

Sincerely,

James Mazarella
Vice President (Acting)
Congressional and Public Affairs

Enclosure:
As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

September 3, 2009

Corrected Version (*In Italics*)

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	FY 2009 Program Funds
OBLIGATION AMOUNT:	\$5,570,000 (total) \$5,570,000 (FY 2009)

In accordance with section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009 (Division H, P.L. 111-8), this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$5,570,000 in MCC program funds under section 609(g) of the Millennium Challenge Act of 2003, as amended (the “Act”), for the purpose of facilitating the development and implementation of a Millennium Challenge Compact (“Compact”) with the Republic of the Philippines.

MCC funds will be used to finance the collection of baseline data for monitoring and evaluation activities for a community-driven development project, and detailed designs for two secondary national roads, including environmental and social assessments. The aforementioned uses of MCC funds will mitigate project implementation risks, yield accurate cost estimates, and ensure adequate safeguards for proposed investments targeting the poorest areas of the Philippines. These implementation preparations also will ensure smoother and more predictable implementation, in the event that a Compact is successfully concluded with the Philippines.

SUPPLEMENTAL INFORMATION

MCC / Philippines 609(g) Request

Background

MCC's Chief Executive Officer (Acting) has approved a 609(g) grant for the Philippines in an amount not to exceed \$5.57 million to support Compact development in the Philippines.

Justification

Following a thorough internal and external review of project concepts submitted by the Government of the Republic of the Philippines (GRP) to MCC, three projects were selected for further development based on the analysis of the technical challenges presented by each concept, including project risk and possible risk mitigation measures, economic viability, and implementation preparedness. The three projects under development include: (1) rehabilitation and upgrading of four secondary national roads serving poor areas; (2) an expansion of an existing GRP and World Bank-financed community development project, Kalahi-CIDSS; and (3) an integrated revenue information system to raise revenue collection effectiveness and reduce opportunities for fraud and corruption through a redesign and computerization of business processes in the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC). Upon further technical review, MCC has determined that the secondary national roads program and Kalahi-CIDSS require additional technical work to be financed by the proposed 609(g) program.

The GRP has provided pre-feasibility studies for two road projects and feasibility studies for two road segments on the island of Samar. In addition, the GRP has provided detailed implementation manuals for the Kalahi-CIDSS program. These studies and manuals allow MCC to make preliminary determinations about remaining technical work to be conducted, to establish a basis for project cost estimates, to ensure project readiness at Compact signature, and to understand better project risks and potential mitigating measures. GRP has provided a substantial outlay of technical and financial resources in support of Compact development, thus reinforcing the GRP's commitment to achieving a Compact that can be fully implemented.

MCC's planned expenditures under the 609(g) program would greatly influence the likelihood that a) MCC has adequate project cost estimates at the time of the Compact signature; b) the period of time between Compact signing and entry into force is reasonably short; c) project construction, and disbursements, can begin soon after entry into force; and d) all projects will be completed well within the five-year compact period.

Specific activities to be funded under a 609(g) grant include the following:

1. Detailed engineering design and technical bid documentation for two road segments on the island of Samar, totaling 222 kilometers;
2. Environmental and Social Assessment Activities, including (a) Resettlement Action Plans for all four road segments under consideration; and (b) social and gender impact assessments for all four road segments;
3. Supplemental economic data collection related to Kalahi-CIDSS;

4. Monitoring and evaluation preparations for Kalahi-CIDSS.

Project Summaries

The three projects are currently in development for inclusion in a potential Philippines compact. Their inclusion will be based on detailed feasibility assessments, implementation capacity within five years, and available funds. An affirmative investment decision by MCC's board would also be required to conclude such a compact. Each project is described in more detail below.

A. Secondary National Roads Development Project

Inter- and intra-island transport systems play a crucial role in supporting the economic development of the widely dispersed regions of the Philippine archipelago. However, the present inadequate condition of infrastructure facilities and lack of reliable, safe, and efficient transport services significantly hamper the movement of passengers and cargo throughout the country, thus limiting direct internal and external trade links and tourism, and constituting a major constraint to increased regional economic growth.

The Department of Public Works and Highways, based on the rural road sector plan and strategy, identified the rehabilitation and upgrading of four secondary national roads of 280 kilometers as a priority. The objective of the proposed project is to improve four secondary national roads in rural areas in selected provinces of the country to promote economic growth by providing access to the center of agriculture and industrial activities, to improve the standard of living of inhabitants in rural areas, and to provide more comfortable and reliable transport services and facilities in these areas.

B. Kapit-Bisig Laban sa Kahirapan—Comprehensive and Integrated Delivery of Social Services (Kalahi-CIDSS or KC)

Kalahi-CIDSS is the flagship poverty reduction project of the GRP implemented by the Department of Social Welfare and Development. Kalahi-CIDSS is a community-driven development project, in which communities, in cooperation with their local governments, are trained to choose, design, and implement initiatives (subprojects) that are intended to address the communities' most pressing needs.

The project concept prioritizes: (a) empowering communities to participate fully in the development of their communities, and to manage assets in a sustainable way; (b) improving how communities link their priorities to other development programs of the state; (c) using investments from the project as a platform to promote greater accountability; and (d) using the benefits of improved social services to reduce poverty.

The most commonly chosen subprojects are water systems, feeder roads, schools, and health posts. A World Bank-financed midterm evaluation found that subprojects have high positive economic impacts (e.g., economic rates of return between 16% and 65%).

While MCC will take advantage of the many lessons learned during the World Bank-funded Kalahi-CIDSS project and consequent project refinements, MCC's own Kalahi-CIDSS program will include a deeper emphasis on improving gender equity and the participation of women in the projects. MCC will also explore ways to use private sector co-investment to leverage critical investment funds as part of the community empowerment process. Finally, the program will be targeted at the poorest municipalities, and benefit from more accurate poverty data than its predecessor project.

C. Department of Finance Project, IRIS

The Integrated Revenue Information System (IRIS) project aims to remove a key constraint to economic growth in the Philippines: the lack of fiscal space for growth-enhancing investments in, for example, public infrastructure and social services. The project involves raising revenue collection effectiveness through a redesign and computerization of business processes with a focus on two agencies of the Department of Finance: the BIR and BOC. The overall objective is to address the problems of tax evasion and corruption while raising tax revenues. The IRIS project is being coordinated extensively with the World Bank, IMF, and other bilateral donors, while also drawing upon lessons learned from the recently-completed MCC Philippines Threshold Program.

The project will bring benefits to the Philippines economy broadly. The project will reduce the private sector's compliance costs and the public sector's administrative costs for the Philippine revenue agencies, allowing these resources to be employed in more productive uses. In addition, improved tax and customs revenue administration will be an important element of improving the business enabling environment. Finally, through both increased tax revenues and avoided debt service, the project is expected to increase fiscal space for public spending generally, including in particular investments in education, health, and physical infrastructure.