



**MILLENNIUM
CHALLENGE
CORPORATION**
REDUCING POVERTY THROUGH GROWTH



Fact Sheet

July 26, 2006 ★ www.mcc.gov

Republic of the Philippines and Millennium Challenge Corporation: Combating Corruption by Strengthening Government Institutions; Philippines to Fully Match \$21 Million U.S. Grant

Threshold Program Overview

The \$21 million Philippines Threshold Program focuses on addressing improved revenue administration and anti-corruption efforts and is consistent with the “Medium-Term Philippine Development Plan, 2004-2010,” which was announced by President Gloria Macapagal-Arroyo in October 2004. With support for its anti-corruption initiatives, the Government of the Philippines will further accelerate the pace of sustainable and continuous efforts to stamp out corruption, plug revenue leaks, increase tax collection and ultimately channel more resources to poverty reduction programs such as in healthcare, education and social services.

The Philippines Threshold Program will reduce corruption by strengthening the Office of the Ombudsman and strengthening enforcement within three areas of the Department of Finance (DOF) -- the Revenue Integrity Protection Service (RIPS), the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC).

MCC’s board of directors approved the Philippine program in June. Following the decision, Filipino media reported that the government intended to match the MCC Threshold funds one-for-one.

Program Components

Strengthen the Office of the Ombudsman: The Ombudsman has the authority to investigate and prosecute high-level government officials in its own courts. Funding has increased significantly for the office, resulting in dramatic increases in staff and requirements for additional training and equipment in order to be effective. The goal of this activity will be to reduce opportunities for corruption throughout the government by training Ombudsman employees and establishing information management and investigation and surveillance capability. The component also aims to reduce the deficit by reducing the cost of government operations and by obtaining higher revenues as revenue collection officials develop a stronger incentive to be honest.

Strengthen the Department of Finance: To address corruption, the DOF is simultaneously conducting anti-corruption drives in three separate areas: the DOF itself through its RIPS unit, the BIR through its Run After Tax Evaders (RATE) unit, and the BOC through its Run After The Smugglers! (RATS) unit. All three units were

recently organized and given increased resources to increase the government's enforcement ability. Additional resources are needed to train staff and provide the equipment and systems to increase their effectiveness. The aim of this component is to improve the ability of the RIPS, RATE and RATS units to expose violators and increase compliance with the laws by both taxpayers and officials of the revenue collection agencies.

Highlights of Expected Results

- Increase the conviction rate in corruption cases filed before the anti-graft court (Sandiganbayan) on a cumulative basis from 30 percent to 40 percent.
- Increase the number of cases successfully mediated in the Ombudsman's Public Assistance Office from 0 to 300 per year.
- Increase the number of RIPS cases filed from 13 to 50.
- Increase the number of officials charged by RIPS who were suspended by the Ombudsman from 6 to 35.
- Increase the percentage of income tax returns filed by professionals and the self-employed by 10 percent.
- Increase the percentage of corporate tax returns filed by 10 percent.
- Increase the number of RATE cases filed with the Department of Justice from 44 to 116.
- Increase the number of cases filed by RATS with the Department of Justice from 9 to 24 per year.
- Increase in RATS cases filed by the Department of Justice with the Court of Tax Appeals from 2 to 15 per year.

The Government of the Philippines will also use additional indicators on corruption in tax administration and customs drawn from the World Bank Institute's "Control of Corruption" index, which MCC evaluates in determining eligibility for MCA funding, to measure program effectiveness.

Implementing Partners

The U.S. Agency for International Development will take the lead in implementation, working closely with MCC. Other U.S. agencies may also be involved.