MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

In accordance with section 610(b)(1) of the Millennium Challenge Act of 2003, as amended, we wish to inform you that the Millennium Challenge Corporation entered into a Millennium Challenge Compact with the Republic of the Philippines on September 23, 2010. We have included a detailed summary of the Compact and a copy of the text of the Compact.

In addition, we will publish the detailed summary and the text of the Compact in the Federal Register and on MCC's website.

The attached notification is being sent to the Congress on September 30, 2010.

Sincerely,

T. Charles Cooper

T. Charles Cooper
Vice President
Congressional and Public Affairs

MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION
September 30, 2010

In accordance with section 610(b)(1) of the Millennium Challenge Act of 2003, as amended (22 U.S.C. 7701 *et seq.*) (the "***Act***"), this is to advise that the Millennium Challenge Corporation ("***MCC***") entered into a Millennium Challenge Compact with the Republic of the Philippines under sections 605 and 609(g) of the Act on September 23, 2010 (the "***Compact***").

A detailed summary of the Compact and a copy of the text of the Compact follow.

SUPPLEMENTAL INFORMATION

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

The five-year Millennium Challenge Compact with the Republic of the Philippines ("Compact") will provide up to $433,910,000 million to reduce poverty and accelerate economic growth. 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.

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 space 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 Government of the Republic of the Philippines' ("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. The project is expected to reach the entire Philippine population and has an economic rate of return of 40 percent.

Kalahi-CIDSS Community Development Project *($120.0 million)*

The Kalahi-CIDSS Project will improve welfare in rural areas by targeting communities where poverty incidence exceeds the national average for small-scale, community-driven development 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. The project is expected to benefit over five million beneficiaries over the next 20 years and has an estimated economic rate of return of 13 percent.

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. The project is expected to reach 290,000 beneficiaries and has an economic rate of return of 14 percent.

Administration

The Compact also includes program management and oversight costs estimated at $36.91 million over a five-year time frame, including the costs of administration, management, auditing, and fiscal and procurement agent services. In addition, the cost of monitoring and evaluation of the Compact is budgeted at approximately $8.26 million.