



**MILLENNIUM  
CHALLENGE  
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

We wish to provide a courtesy notification that the Millennium Challenge Corporation's Board of Directors has approved Threshold Program assistance for the Philippines of up to \$22,132,950 in FY 2005 MCC program funds. Of this amount, up to \$20,685,000 will be available for the Philippines program and up to \$1,447,950 will be made available to USAID for administrative expenses associated with the Threshold Program.

MCC's Threshold Program is designed to assist Millennium Challenge Account (MCA) candidate countries that are committed to undertaking the reforms necessary to improve their policy performance and potentially qualify as countries eligible for MCA Compact assistance.

The attached summary outlines the Philippines program. Members of MCC's staff are available to meet with you to discuss the planned program. If you or your staff would like to arrange a meeting, please contact Jake Stefanik at (202) 521-3856. The attached summary is being sent to the Congress on June 22, 2006.

Sincerely,

Frances C. McNaught  
Vice President  
Congressional and Public Affairs

## Threshold Program Summary

<b><u>Country:</u></b>	The Philippines
<b><u>Budget:</u></b>	\$22,132,950
<b><u>Fiscal Year Funding:</u></b>	2005
<b><u>Estimated Program Duration:</u></b>	2 years
<b><u>Indicator Focus:</u></b>	Control of Corruption and Fiscal Policy
<b><u>Principal Objectives</u></b>	Reduce corruption Improve revenue administration

### **Background:**

The 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 developed under the guidance of President Gloria Macapagal-Arroyo and released in October 2004. With support for the Philippine’s 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).

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### **Program Components – Objectives and Proposed Activities:**

**Component 1. 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.

**Objective:** 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.

**Proposed Activities:**

- A. Expand Ombudsman training program for new hires and to provide advanced courses for previously trained employees.
- B. Improve information management by internally connecting the six existing Ombudsman offices via a Local Area Network (LAN) and a Wide Area Network (WAN).
- C. Strengthen investigation and surveillance capability of the Ombudsman by providing training and acquiring equipment such as cameras, optic and electronic devices.
- D. Train teachers to provide an anti-corruption module in public school curriculums.
- E. Establish a mediation system to unclog the investigation-prosecution system of requests that are not legally actionable but require conflict mediation.

**Component 2. 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 Revenue Integrity Protection Service (RIPS) unit, the Bureau of Internal Revenue through its Run After Tax Evaders (RATE) unit, and the Bureau of Customs 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.

Objective: 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.

- A. *Improve the investigative skills of the RIPS staff to increase the number of convictions of corrupt officials within the revenue generating agencies under the DOF by investigating and conducting lifestyle checks.*

Proposed Activities:

- A. Train and mobilize RIPS staff including basic training and advanced training courses.
  - B. Strengthen the investigation and surveillance capacity by providing surveillance equipment such as cameras, optic and electronic devices, which will reduce backlogs in case development and prosecution.
  - C. Improve information security to safeguard evidence and documents by designing and installing a security system.
- B. *Institutionalize the RATE program within the Bureau of Internal Revenue to deter tax evasion.*

Proposed Activities:

- A. Institutionalize the RATE campaign at the national level through local and overseas training programs on illegal activities, evidence needed to prove a tax case and how to investigate and document a case.
- B. Fundamentally reform the processes associated with taxpayer registration and filing, introducing computerization to allow for a substantial increase in effectiveness of RATE investigations.

- C. Automate the Human Resource Information System to enable BIR management to allocate human resources more effectively, improve work efficiency of BIR staff, and evaluate and monitor performance.
- C. *Strengthen the capability of the RATS group to investigate, prosecute, and deter violators of the Tariff and Customs Code and trade-related laws.*

Proposed Activities:

- A. Train RATS staff on profiling, case evaluation and litigation.
- B. Improve information management and document security.
- C. Develop a RATS database for customs personnel with disaggregated information to better develop cases.
- D. Institutionalize and strengthen the Customs Accreditation Secretariat (CAS) to conform with international standards by training staff in areas such as financial evaluation and document validation, as well as centralizing and integrating accreditation systems that will eventually connect with other systems globally.
- E. Harmonize customs law, rules and regulations to ensure that the Tariff and Customs Code of the Philippines is attuned to developments in worldwide customs administration.
- F. Establish an Integrity Action Plan to promote ethical and professional behavior within the BOC.
- G. Establish an Internal Control Unit to ensure that all BOC units perform their respective mandates in accordance with key performance objectives.

**Highlights of Expected Results:**

1. Increase the conviction rate in corruption cases from 30 percent to 40 percent.
2. Increase the number of cases successfully mediated in the Public Assistance Office from 0 to 300.
3. Increase the number of RIPS cases filed from 13 to 50.
4. Increase the number of officials charged by RIPS who were suspended by the Ombudsman from 6 to 35.
5. Increase the percentage of income tax returns filed by professionals and the self-employed by 10 percent.
6. Increase the percentage of corporate tax returns filed by 10 percent.
7. Increase the number of RATE cases filed with the Department of Justice from 44 to 119.
8. Increase the number of cases files by RATS with the Department of Justice from 9 to 48.
9. Increase the number of favorable Court of Tax Appeals decisions on RATS cases from 2 to 24.

The Government of the Philippines will also use additional indicators on corruption in tax administration and customs drawn from MCC's "Control of Corruption" indicator to measure program effectiveness.

**Implementing Partners:** The United States Agency for International Development will take the lead in implementation, working closely with MCC. Other U.S. Government agencies may also be involved.