

MCC and the Philippines: Creating Opportunities for Growth

The Millennium Challenge Corporation's Board of Directors has approved a five-year, \$434 million compact with the Government of Republic of the Philippines aimed at reducing poverty through economic growth. The compact is intended to support 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.

Revenue Administration Reform Project (approximately \$54.4 million)

The Revenue Administration Reform Project addresses the need to raise tax revenues and reduce tax evasion and revenue agent-related corruption. A key constraint to economic growth in the Philippines is the lack of growth-enhancing investments in public goods such as infrastructure and social services. This project will focus on increasing the efficiency and sustainability of revenue collection through a redesign and computerization of business processes. The project will narrow the gap between potential and actual collections by reducing the discretion of individual 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.

Kalahi-CIDSS (approximately \$120 million)

The Kalahi-CIDSS project will improve lives in rural areas by targeting communities where poverty 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 participatory planning, implementation, and evaluation methodology developed by the Philippines Department of Social Welfare and Development in collaboration with the World Bank.

The project will empower communities to participate fully in development activities, address the needs they have identified and manage assets in a sustainable way. The project will also strengthen the link between community priorities and local governments' development programs and use investments in a transparent manner to promote greater accountability and reduce poverty. The grants for the community sub-projects will be provided directly to the local communities, which are responsible, the procurement of goods and services for their sub-project, and, in most cases, the operation and maintenance of the physical assets. The Department of Social Welfare and Development will implement this project, overseen by a National Steering Committee that includes representatives from government departments and NGOs, and in collaboration with local governments.

Secondary National Roads Development Project (approximately \$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 costs and time for both passengers and goods, and by reducing road maintenance costs, the investment will increase commerce in and between the provinces of Samar and Eastern Samar, and ultimately increase incomes.

The project will incorporate enhanced safety measures in the final road designs including paved shoulders, construction of sidewalks and curbs where pedestrian activity is higher, improved gateway treatments to indicate where lower speeds are required, and increased use of road narrowing, median islands, and traffic humps to slow traffic speeds.

Administration

The compact includes approximately \$37 million for administrative and oversight costs of the projects, including the cost of administration, management, and auditing as well as fiscal and procurement agent services and environmental and social oversight. The cost of monitoring and evaluation of the compact is budgeted at \$8.26 million.

Expected Results

The compact projects are expected to have robust and demonstrable impacts on incomes of Filipinos—particularly the poor—and on overall economic growth. The Kalahi-CIDDS project is expected to benefit over 5 million people by 2030 and the road project is expected to impact nearly 300,000 people. The Revenue Administration Reform Project is expected to have broad impacts throughout the economy, thus making nearly all citizens project beneficiaries.