IX. Other Information

OMB Information Collection No. 1225–0086

OMB Information Collection No. 1225–0086, Expires November 30, 2012

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless such collection displays a valid OMB control number. Public reporting burden for this collection of information is estimated to average 20 hours per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding the burden estimated or any other aspect of this collection of information, including suggestions for reducing this burden, to the U.S. Department of Labor, to the attention of: Departmental Clearance Officer, 200 Constitution Avenue, NW., Room N–1310, Washington, DC 20210. Comments may also be e-mailed to *DOL_PRA_PUBLIC@dol.gov*. Please do not return the completed application to this address. Send it to the sponsoring agency as specified in this solicitation.

This information is being collected for the purpose of awarding a grant. The information collected through this "Solicitation for Grant Applications" will be used by DOL to ensure that grants are awarded to the applicant best suited to perform the functions of the grant. Submission of this information is required in order for the applicant to be considered for award of this grant. Unless otherwise specifically noted in this announcement, information submitted in the respondent's application is *not* considered to be confidential.

Signed at Washington, DC, this 28th day of September 2010.

Donna Kelly,

Grant Officer, Employment and Training Administration.

[FR Doc. 2010–24825 Filed 10–1–10; 8:45 am]

BILLING CODE 4510–FT–P

MILLENNIUM CHALLENGE CORPORATION

[MCC FR 10–11]

Notice of Entering Into a Compact With the Republic of the Philippines

AGENCY: Millennium Challenge Corporation.

ACTION: Notice.

SUMMARY: In accordance with Section 610(b)(2) of the Millennium Challenge Act of 2003 (Pub. L. 108–199, Division D), the Millennium Challenge Corporation (MCC) is publishing a summary and the complete text of the Millennium Challenge Compact between the United States of America, acting through the Millennium Challenge Corporation, and the Republic of the Philippines. Representatives of the United States Government and the Republic of the Philippines executed the Compact documents on September 23, 2010.

Dated: September 29, 2010.

Melvin F. Williams, Jr.,

VP/General Counsel and Corporate Secretary, Millennium Challenge Corporation.

Summary of Millennium Challenge Compact With 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.

Millennium Challenge Compact

Between the United States of America Acting Through the Millennium Challenge Corporation and the Republic of the Philippines

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Millennium Challenge Compact

Preamble

This Millennium Challenge Compact (this "*Compact*") is between the United States of America, acting through the Millennium Challenge Corporation, a United States government corporation ("*MCC*"), and the Republic of the Philippines ("the *Philippines*"), acting through its government (the "*Government*"), represented by its Department of Finance.

MCC and the Government are individually referred to in this Compact as a "*Party*" and together, as the "*Parties.*" Capitalized terms used in this Compact will have the meanings specified in Annex V hereto.

Recalling that the Government consulted with the private sector and civil society of the Philippines to determine the priorities for the use of Millennium Challenge Account assistance and developed and submitted to MCC a proposal for such assistance to achieve lasting economic growth and poverty reduction; and

Recognizing that MCC wishes to help the Philippines implement a program to achieve the goal and objectives described herein (the "*Program*").

The Parties agree as follows:

Article 1. Goal and Objectives

Section 1.1 Compact Goal

The goal of this Compact is to reduce poverty through economic growth in the Philippines (the "*Compact Goal*").

Section 1.2 Program Objective

The objective of the Program is to: (a) Increase the incomes of Filipinos through the benefits of community-driven sub-projects; (b) obtain time savings and lower transportation costs for road users in Program areas; and (c) increase investment and government expenditure due to an increase in tax revenue and a reduction in corruption (as further described in Annex I, the "*Program Objective*").

Section 1.3 Project Objectives

The objectives of the Projects (as further described in Annex I) (each a "*Project Objective*" and collectively, the "*Project Objectives*") are as follows:

(a) The objectives of the KALAHI–CIDSS Project (as defined in Annex I) are to: (i) Improve the responsiveness of local governments to community needs; (ii) encourage communities to engage in development activities; and (iii) deliver benefits to *barangay* residents through individual sub-projects.

(b) The objectives of the Secondary National Roads Development Project (as defined in Annex I) are to: (i) save time; and (ii) lower vehicle operating costs for those Filipinos living near the roads.

(c) The objectives of the Revenue Administration Reform Project (as defined in Annex I) are to: (i) increase tax revenues over time; and (ii) support the Department of Finance's initiatives to detect and deter corruption within its revenue agencies.

Article 2. Funding and Resources

Section 2.1 Program Funding

Upon entry into force of this Compact, MCC will grant to the Government, under the terms of this Compact, an amount not to exceed Four Hundred Eight Million Eight Hundred Fifty Thousand United States Dollars (U.S. $408,850,000) to support the Program ("*Program Funding*"). The allocation of Program Funding is generally described in Annex II to this Compact.

Section 2.2 Compact Implementation Funding

(a) Upon signature of this Compact, MCC hereby grants to the Government, under the terms of this Compact, in addition to the Program Funding described in Section 2.1, an amount not to exceed Twenty-Five Million Sixty Thousand United States Dollars (U.S. $25,060,000) ("*Compact Implementation Funding*") under Section 609(g) of the Millennium Challenge Act of 2003, as amended (the "*MCA Act*"), for use by the Government as agreed by the Parties, which may include use for the following purposes:

(i) Project management activities for the KALAHI–CIDSS Project;

(ii) Procurement and establishment of a project management company for the Secondary National Roads Development Project; and

(iii) Technical assistance for advisory services for the Revenue Administration Reform Project.

The allocation of Compact Implementation Funding is generally described in Annex II to this Compact.

(b) In accordance with Section 7.4 of this Compact, this Section 2.2 and other provisions of this Compact necessary to make use of Compact Implementation Funding for the purposes set forth herein, will be effective, for purposes of Compact Implementation Funding only, as of the date this Compact is signed by MCC and the Government.

(c) Each Disbursement of Compact Implementation Funding is subject to satisfaction of the conditions to such Disbursement as set forth in Annex IV.

(d) If, after the first anniversary of this Compact entering into force, MCC determines that the full amount of Compact Implementation Funding under Section 2.2(a) of this Compact exceeds the amount which reasonably can be utilized for the purposes and uses set forth in Section 2.2(a) of this Compact, MCC, by written notice to the Government, may withdraw the excess amount, thereby reducing the amount of the Compact Implementation Funding as set forth in Section 2.2(a) (such excess, the "*Excess CIF Amount*"). In such event, the amount of Compact Implementation Funding granted to the Government under Section 2.2(a) will be reduced by the Excess CIF Amount, and MCC will have no further obligations with respect to such Excess CIF Amount.

(e) MCC, at its option by written notice to the Government, may elect to grant to the Government an amount equal to all or a portion of such Excess CIF Amount as an increase in the Program Funding, and such additional Program Funding will be subject to the terms and conditions of this Compact and any relevant supplemental agreement applicable to Program Funding.

Section 2.3 MCC Funding

Program Funding and Compact Implementation Funding are collectively referred to in this Compact as "*MCC Funding.*"

Section 2.4 Disbursement

In accordance with this Compact and the Program Implementation Agreement, MCC will disburse MCC Funding for expenditures incurred in furtherance of the Program (each instance, a "*Disbursement*"). Subject to the satisfaction of all applicable conditions, the proceeds of such Disbursements will be made available to the Government, at MCC's sole election, by (a) deposit to one or more bank accounts established by the Government through MCA-Philippines and acceptable to MCC (each, a "*Permitted Account*") or (b) direct payment to the relevant provider of goods, works or services for the implementation of the Program. MCC Funding may be expended only to fund Program expenditures as provided in this Compact and the Program Implementation Agreement.

Section 2.5 Interest

Except as otherwise agreed by MCC, the Government will transfer to MCC any interest or other earnings that accrue on MCC Funding (whether by directing such payments to a bank account outside the Philippines that MCC may from time to time indicate or as otherwise directed by MCC).

Section 2.6 Government Resources; Budget

(a) The Government will provide all funds and other resources, and will take all actions, that are necessary to carry out the Government's responsibilities and obligations under this Compact.

(b) The Government will provide suitable and adequate office space for MCA-Philippines, the Fiscal Agent, the Procurement Agent, and the MCC resident country mission.

(c) The Government will ensure that all MCC Funding it receives or is projected to receive in each of its fiscal years is fully accounted for in its annual budget on a multi-year basis.

(d) The Government will not reduce the normal and expected resources that it would otherwise receive or budget from sources other than MCC for the activities contemplated under this Compact and the Program.

(e) Unless the Government discloses otherwise to MCC in writing, MCC Funding will be in addition to the resources that the Government would otherwise receive or budget for the activities contemplated under this Compact and the Program.

(f) Without limitation of its obligations under Section 2.6(a) above, the Government shall: (i) Contribute funding to MCA-Philippines as described in Section 16 of the Establishment Decree and in compliance with Section 2.13 of the Program Implementation Agreement; and (ii) fund all costs in excess of those budgeted for the Program, as set forth in Annex II (as such may be modified in accordance with the terms thereof), in order to ensure the full and complete implementation of the Program.

Section 2.7 Limitations on the Use of MCC Funding

The Government will ensure that MCC Funding (or any refunds or reimbursements of MCC Funding paid by the Government in accordance with this Compact that MCC permits to be used in connection with the Program) will not be used for any purpose that would violate United States law or policy, as specified in this Compact or as further notified to the Government in writing or by posting from time to time on the MCC Web site at *www.mcc.gov* (the "*MCC Web site*"), including, but not limited to, the following purposes:

(a) For assistance to, or training of, the military, police, militia, national guard or other quasi-military organization or unit;

(b) For any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production;

(c) To undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard, as further described in MCC's environmental and social guidelines posted from time to time on the MCC Web site or otherwise made available to the Government by MCC (the "*MCC Environmental Guidelines*"); or

(d) To pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilizations as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations or to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning.

Section 2.8 Taxes and Contributions

The Government will ensure that no MCC Funding will be used for the payment of any existing or future taxes, customs duties, social security and other employment-related contributions, or other similar charges of the Government or any other governmental entity (national or sub-national, including of provinces, cities, municipalities, *barangays,* and other local governmental entities) in the Philippines ("*Taxes and Contributions*"), in accordance with

Section 2.4 of the Program Implementation Agreement.

Article 3. Implementation

Section 3.1 Program Implementation Agreement

Prior to entry into force of this Compact, the Government and MCC will enter into an agreement relating to, among other matters, implementation arrangements, fiscal accountability, and the disbursement and use of MCC Funding (the "*Program Implementation Agreement*" or "*PIA*"). The Government will implement the Program in accordance with the Compact and the PIA.

Section 3.2 Government Responsibilities

(a) The Government has principal responsibility for overseeing and managing the implementation of the Program.

(b) The Government hereby designates MCA-Philippines, an entity established through the issuance of Executive Order No. 849 of the Government (as amended, the "*Establishment Decree*"), as the accountable entity to implement the Program and to exercise and perform the Government's rights and responsibilities with respect to the oversight, management, and implementation of the Program, including, without limitation, managing the implementation of Projects and their Activities, allocating resources, and managing procurements. Such entity will be referred to herein as Millennium Challenge Account-Philippines ("*MCA-Philippines*"), and has the authority to bind the Government with regard to all Program Activities. The Establishment Decree will remain in form and substance satisfactory to MCC. For the avoidance of doubt, the designation of MCA-Philippines as set forth in this Section 3.2(b) will not relieve the Government of any of its obligations or responsibilities as set forth hereunder, under any related agreement (including, upon execution thereof, the PIA), or under the Program Guidelines, for which the Government remains fully responsible. MCC hereby acknowledges and consents to the designation in this Section 3.2(b).

(c) The Government will ensure that no law or regulation in the Philippines now or hereinafter in effect makes or will make unlawful or otherwise prevent or hinder the performance of any of the Government's obligations under this Compact, the PIA, or any other related agreement or any transaction contemplated hereby or thereby.

(d) The Government will ensure that any assets or services funded in whole or in part (directly or indirectly) by MCC Funding are used solely in furtherance of this Compact and the Program unless otherwise agreed by MCC in writing.

(e) The Government will take all necessary or appropriate steps to achieve the Program Objective and the Project Objectives during the Compact Term.

(f) The Government will fully comply with the Program Guidelines, as applicable, in its implementation of the Program.

Section 3.3 Policy Performance

In addition to undertaking the specific policy, legal, and regulatory reform commitments identified in Annex I (if any), the Government will seek to maintain and to improve its level of performance under the policy criteria identified in Section 607 of the MCA Act, and the selection criteria and methodology used by MCC.

Section 3.4 Government Assurances

The Government assures MCC that, as of the date this Compact is signed by the Government, the information provided to MCC by or on behalf of the Government in the course of reaching agreement with MCC on this Compact is true, correct and complete in all material respects.

Section 3.5 Implementation Letters

From time to time, MCC may provide guidance to the Government in writing on any matters relating to this Compact, MCC Funding, or implementation of the Program (each, an "*Implementation Letter*"). The Government will apply such guidance in implementing the Program. Without limiting the foregoing, either Party may, through its Principal Representative or any Additional Representative, as the case may be, initiate discussions that may result in a jointly agreed-upon Implementation Letter to confirm and record their mutual understanding on aspects related to the implementation of this Compact, the PIA, or other related agreements.

Section 3.6 Procurement

The Government will ensure that the procurement of all goods, works, and services by the Government, or any applicable provider providing goods, works, and services, to implement the Program will be consistent with the program procurement guidelines posted from time to time on the MCC Web site (the "*MCC Program Procurement Guidelines*"). The MCC Program Procurement Guidelines include, among others, the following requirements:

(a) Open, fair, and competitive procedures must be used in a transparent manner to solicit, award and administer contracts and to procure goods, works, and services;

(b) Solicitations for goods, works, and services must be based upon a clear and accurate description of the goods, works, and services to be acquired;

(c) Contracts must be awarded only to qualified contractors that have the capability and willingness to perform the contracts in accordance with their terms on a cost effective and timely basis;

(d) No more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, will be paid to procure goods, works, and services; and

(e) Such procurement of goods, works, and services by the Government, or any applicable provider providing goods, works, and services, to implement the Program will not be subject to any domestic preference, local content, or local labor requirements.

Section 3.7 Records; Accounting; Covered Providers; Access

(a) Government Books and Records. The Government will maintain, and will use its best efforts to ensure that all Covered Providers maintain, accounting books, records, documents, and other evidence relating to the Program adequate to show, to MCC's satisfaction, the use of all MCC Funding ("*Compact Records*"). In addition, the Government will furnish or cause to be furnished to MCC, upon its request, all such Compact Records.

(b) Accounting. The Government will maintain, and will use its best efforts to ensure that all Covered Providers maintain, Compact Records in accordance with generally accepted accounting principles prevailing in the United States, or at the Government's option and with MCC's prior written approval, other accounting principles, such as those (i) prescribed by the International Accounting Standards Board, or (ii) then prevailing in the Philippines. Compact Records must be maintained for at least five (5) years after the end of the Compact Term or for such longer period, if any, required to resolve any litigation, claims or audit findings or any statutory requirements.

(c) Providers and Covered Providers. Unless the Parties agree otherwise in writing, a "*Provider*" is (i) any entity of the Government that receives or uses MCC Funding or any other Program Asset in carrying out activities in furtherance of this Compact, or (ii) any third party that receives at least Fifty Thousand United Stated Dollars (US$50,000) in the aggregate of MCC Funding (other than as salary or compensation as an employee of an entity of the Government) during the Compact Term. A "*Covered Provider*" is (1) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) Three Hundred Thousand United States Dollars (US$300,000) or more of MCC Funding in any Government fiscal year or any other non-United States person or entity that receives, directly or indirectly, Three Hundred Thousand United States Dollars (US$300,000) or more of MCC Funding from any Provider in such fiscal year, or (2) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) Five Hundred Thousand United States Dollars (US$500,000) or more of MCC Funding in any Government fiscal year or any other United States person or entity that receives, directly or indirectly, Five Hundred Thousand United States Dollars (US$500,000) or more of MCC Funding from any Provider in such fiscal year.

(d) Access. Upon MCC's request, the Government, at all reasonable times, will permit, or cause to be permitted, authorized representatives of MCC, an authorized Inspector General, the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or the Government to conduct any assessment, review, or evaluation of the Program, the opportunity to audit, review, evaluate, or inspect facilities and activities funded in whole or in part by MCC Funding.

Section 3.8 Audits; Reviews

(a) Government Audits. Except as the Parties may otherwise agree in writing, the Government will, on at least a semi-annual basis, conduct, or cause to be conducted, financial audits of all Disbursements of MCC Funding covering the period from signing of this Compact until the earlier of the following December 31 or June 30 and covering each six-month period thereafter ending December 31 and June 30, through the end of the Compact Term. In addition, upon MCC's request, the Government will ensure that such audits are conducted by an independent auditor approved by MCC and named on the list of local auditors approved by the Inspector General of MCC (the "*Inspector General*") or a United States-based certified public accounting firm selected in accordance with the "Guidelines for Financial Audits Contracted by MCA" (the "*Audit Guidelines*") issued and revised from time to time by the Inspector General, which are posted on the MCC Web site. Audits will be performed in accordance with the Audit Guidelines and be subject to quality assurance oversight by the Inspector General. Each audit must be completed and the audit report delivered to MCC no later than ninety (90) days after the first period to be audited and no later than ninety (90) days after each June 30 and December 31 thereafter, or such other period as the Parties may otherwise agree in writing.

(b) Audits of United States Entities. The Government will ensure that agreements between the Government or any Provider, on the one hand, and a United States nonprofit organization, on the other hand, that are financed with MCC Funding state that the United States nonprofit organization is subject to the applicable audit requirements contained in OMB Circular A–133, "Audits of States, Local Governments, and Non Profit Organizations," issued by the United States Government Office of Management and Budget. The Government will ensure that agreements between the Government or any Provider, on the one hand, and a United States for-profit Covered Provider, on the other hand, that are financed with MCC Funding state that the United States for-profit organization is subject to audit by the applicable United States Government agency, unless the Government and MCC agree otherwise in writing.

(c) Corrective Actions. The Government will (i) use its best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits, (ii) consider whether the results of a Covered Provider's audit necessitates adjustment of the Government's records, and (iii) require each such Covered Provider to permit independent auditors to have access to its records and financial statements as necessary.

(d) Audit by MCC. MCC will have the right to arrange for audits of the Government's use of MCC Funding.

(e) Cost of Audits, Reviews or Evaluations. MCC Funding may be used to fund the costs of any audits, reviews, or evaluations required under this Compact.

Article 4. Communications

Section 4.1 Communications

Any document or communication required or submitted by either Party to the other under this Compact must be in writing and, except as otherwise agreed with MCC, in English. For this purpose, the address of each Party is set forth below. The Government will provide to MCC any information that is missing from below.

To MCC:

Millennium Challenge Corporation, Attention: Vice President, Compact Operations, (in each case, with a copy to the Vice President and General Counsel), 875 Fifteenth Street, NW., Washington, DC 20005, United States of America, Facsimile: (202) 521–3700, Telephone: (202) 521–3600, e-mail: *VPOperations@mcc.gov* (Vice President, Compact Operations), *VPGeneralCounsel@mcc.gov* (Vice President and General Counsel).

To the Government:

Attention: Secretary of Finance, (in each case, with a copy to the Undersecretary for International Finance Group), Address: 6/F, DOF Building, Department of Finance, Bangko Sentral ng Pilipinas Complex, Roxas Boulevard, Manila 1004 Philippines, Facsimile: (632) 523–9495/(632) 523–9216, Telephone: (632) 523–9215/(632) 523–9911, e-mail: *mcccompact@dof.gov.ph.*

To MCA-Philippines:

Attention: Managing Director, Address: Room Nos. 602–604, 6/F EDPC Building, Bangko Sentral ng Pilipinas Complex, Roxas Boulevard, Manila 1004 Philippines, Contact details on the facsimile number, telephone number, and e-mail address will be provided in writing to MCC by MCA-Philippines

Section 4.2 Representatives

For all purposes of this Compact, the Government will be represented by the individual holding the position of, or acting as, the Secretary of Finance and MCC will be represented by the individual holding the position of, or acting as, Vice President, Compact Operations (each of the foregoing, a "*Principal Representative*"). Each Party, by written notice to the other Party, may designate one or more additional representatives (each, an "*Additional Representative*") for all purposes other than signing amendments to this Compact. The Government hereby irrevocably designates the Managing Director of MCA-Philippines as an Additional Representative. A Party may change its Principal Representative to a new representative that holds a position of equal or higher rank upon written notice to the other Party.

Article 5. Termination; Suspension; Refunds

Section 5.1 Termination; Suspension

(a) Either Party may terminate this Compact without cause in whole by giving the other Party thirty (30) days written notice. MCC may also terminate this Compact without cause in part by giving the Government thirty (30) days written notice.

(b) MCC may, immediately, upon written notice to the Government, suspend or terminate this Compact or MCC Funding, in whole or in part, and any obligation related thereto, if MCC determines that any circumstance identified by MCC in writing to the Government as a basis for suspension or termination has occurred, which circumstances include, but are not limited, to the following:

(i) The Government fails to comply with its obligations under this Compact, the PIA, or any other agreement or arrangement entered into by the Government in connection with this Compact or the Program;

(ii) An event or series of events has occurred that MCC determines makes it probable that the Program Objective or any of the Project Objectives will not be achieved during the Compact Term or that the Government will not be able to perform its obligations under this Compact;

(iii) A use of MCC Funding or continued implementation of this Compact or the Program violates applicable law or United States Government policy, whether now or hereafter in effect;

(iv) The Government or any other person or entity receiving MCC Funding or using assets acquired in whole or in part with MCC Funding is engaged in activities that are contrary to the national security interests of the United States;

(v) An act has been committed or an omission or an event has occurred that would render the Philippines ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(vi) The Philippines is classified as a Tier 3 country in the United States Department of State's annual Trafficking in Persons Report;

(vii) The Government has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of the Philippines for assistance under the MCA Act; or

(viii) The Government or another person or entity receiving MCC Funding or using assets acquired in whole or in part with MCC Funding is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking.

(c) All Disbursements will cease upon expiration, suspension, or termination of this Compact; *provided, however,* MCC may permit MCC Funding to be used, in compliance with this Compact and the PIA, to pay for (i) expenditures for goods, works, or services that are properly incurred under or in furtherance of the Program before expiration, suspension, or termination of this Compact, and (ii) reasonable expenditures (including administrative expenses) properly incurred in connection with the winding up of the Program within one hundred twenty (120) days after the expiration, suspension, or termination of this Compact, so long as, with respect to (i) and (ii) herein, the request for such expenditures is submitted within ninety (90) days after such expiration, suspension, or termination.

(d) Subject to Section 5.1(c), upon the expiration, suspension, or termination of this Compact, (i) any amounts of MCC Funding not disbursed by MCC in accordance with the Compact and the PIA will be automatically released from any obligation in connection with this Compact, and (ii) any amounts of MCC Funding disbursed to the Permitted Account by MCC but not expended before the expiration, suspension or termination of this Compact, plus accrued interest thereon will be returned to MCC within thirty (30) days after the Government receives MCC's request for such return; *provided, however,* that if this Compact is suspended or terminated in part, MCC may request a refund for only the amount of MCC Funding allocated to the suspended or terminated portion. For the avoidance of doubt, interest will accrue from the date of the violation and will be calculated at the 10-year U.S. Treasury Note rate prevailing as of the close of business in Washington, DC as of the date of MCC's request for payment.

(e) MCC may reinstate any suspended or terminated MCC Funding under this Compact if MCC determines that the Government or other relevant person or entity has committed to correct each condition for which MCC Funding was suspended or terminated.

Section 5.2 Refunds; Violation

(a) If any MCC Funding, any interest or earnings thereon, or any asset acquired in whole or in part with MCC Funding is used for any purpose in violation of the terms of this Compact or the PIA, including, but not limited to, any violation of the Program Guidelines, then MCC may require the Government to repay to MCC in United States Dollars the value of the misused MCC Funding, interest, earnings, or asset, plus interest within thirty (30) days after the Government's receipt of MCC's request for repayment. For the avoidance of doubt, interest will accrue from the date of the violation and will be calculated at the 10-year U.S. Treasury Note rate prevailing as of the close of business in Washington, DC as of the date of MCC's request for payment. The Government will not use MCC Funding, proceeds thereof or Program Assets to make such payment.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, MCC's right under this Section 5.2 for a refund will continue during the Compact Term and for a period of (i) five (5) years thereafter, or (ii) one (1) year after MCC receives actual knowledge of such violation, whichever is later.

Section 5.3 Survival

The Government's responsibilities under Sections 2.4, 2.6, 2.7, 2.8, 3.7, 3.8, 5.1(c), 5.1(d), 5.2, 5.3, 6.2, and 6.4 of this Compact will survive the expiration, suspension, or termination of this Compact.

Article 6. Compact Annexes; Amendments; Governing Law

Section 6.1 Annexes

Each annex to this Compact constitutes an integral part hereof, and references to "Annex" mean an annex to this Compact unless otherwise expressly stated.

Section 6.2 Amendments

(a) The Parties may amend this Compact only by a written agreement signed by the Principal Representatives.

(b) Without amending this Compact, the Government hereby acknowledges and agrees that the Parties may, through the Principal Representative or any Additional Representative, in writing agree to modify any Annex to this Compact to (i) suspend, terminate (including the termination of a Project Objective), or modify any project described in Annex I (each, a "*Project*" and collectively, the "*Projects*") or to create a new project, (ii) change the allocations of funds from what is set forth in Annex II as of the date hereof, or (iii) add, delete, or waive any condition precedent described in Annex

IV, *provided that* any such modification, (1) is consistent in all material respects with the Program Objective, (2) does not cause the amount of Program Funding to exceed the aggregate amount specified in Section 2.1 of this Compact (as may be modified by operation of Section 2.2(e) of this Compact), (3) does not cause the amount of Compact Implementation Funding to exceed the aggregate amount specified in Section 2.2(a) of this Compact, (4) does not cause the Government's responsibilities or contribution of resources to be less than specified in this Compact, (5) does not extend the Compact Term, and (6) in the case of a modification to change allocations of funds among Projects or the creation of a new Project, does not materially adversely affect any components under the Program Administration and Audits or Monitoring and Evaluation line items in Annex II.

(c) Any modification of any Annex to this Compact signed in accordance with Section 6.2(b), or any modification of any other provision of this Compact pursuant to Section 6.2(a), will be binding on the Government without the need for further action by the Government, any further Congressional action, or satisfaction of any additional legal requirements of the Philippines.

Section 6.3 Inconsistencies

In the event of any conflict or inconsistency between:

(a) Any Annex to this Compact and any of Article 1.1 and Articles 2 through 8, such Article 1.1 and Articles 2 through 8, as applicable, will prevail; or

(b) This Compact and any other agreement between the Parties regarding the Program, this Compact will prevail.

Section 6.4 Governing Law

This Compact is an international agreement and as such will be governed by the principles of international law.

Section 6.5 Additional Instruments

Any reference to activities, obligations, or rights undertaken or existing under or in furtherance of this Compact or similar language will include activities, obligations, and rights undertaken by or existing under or in furtherance of any agreement, document, or instrument related to this Compact and the Program.

Section 6.6 References to MCC Web site

Any reference in this Compact, the PIA, or any other agreement entered into in connection with this Compact, to a document or information available on, or notified by posting on, the MCC Web site will be deemed a reference to such document or information as updated or substituted on the MCC Web site from time to time.

Section 6.7 References to Laws, Regulations, Policies, and Guidelines

Each reference in this Compact, the PIA, or any other agreement entered into in connection with this Compact, to a law, regulation, policy, guideline, or similar document (including, but not limited to, the Program Guidelines) will be construed as a reference to such law, regulation, policy, guideline, or similar document as it may, from time to time, be amended, revised, replaced, or extended and will include any law, regulation, policy, guideline, or similar document issued under or otherwise applicable or related to such law, regulation, policy, guideline, or similar document.

Section 6.8 MCC Status

MCC is a United States government corporation acting on behalf of the United States government in the implementation of this Compact. MCC and the United States government have no liability under this Compact, the Program Implementation Agreement, or any related agreement, are immune from any action or proceeding arising under or relating to any of the foregoing documents, and the Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to this Compact, the Program Implementation Agreement, or any related agreement, neither MCC nor the United States government will be subject to the jurisdiction of the courts of the Philippines or of any other jurisdiction or of any other body.

Section 6.9 Counterparts; Electronic Delivery

(a) Counterparts. Signatures to this Compact, the Program Implementation Agreement, and any amendments to these agreements will be signed on the same page, except in the case of amendment via exchange of letters or diplomatic notes. Any other documents arising out of this Compact may be signed in one or more counterparts. Such counterparts when delivered and taken together will constitute a single document.

(b) Electronic Delivery. A signature to this Compact, the Program Implementation Agreement, and any amendments to such agreements, will be an original signature. With respect to any other documents arising out of this Compact, a signature delivered by facsimile or electronic mail in accordance with Section 4.1 of this Compact will be deemed an original signature and will be binding on the Party delivering such signature, and the Parties hereby waive any objection to such signature or to the validity of the underlying document, certificate, notice, instrument, or agreement on the basis of the signature's legal effect, validity or enforceability solely because it is in facsimile or electronic form.

Article 7. Entry Into Force

Section 7.1 Conditions Precedent to Entry Into Force

Before this Compact enters into force:

(a) The PIA must have been signed by the parties thereto;

(b) The Government must have delivered to MCC:

(i) A legal opinion from the Secretary of Justice of the Philippines (or such other legal representative of the Government acceptable to MCC), in form and substance satisfactory to MCC; and

(ii) Complete, certified copies of all decrees, legislation, regulations, or other governmental documents relating to the Government's domestic requirements for this Compact to enter into force, which MCC may post on the MCC Web site or otherwise make publicly available; and

(c) MCC must determine that, after signature of this Compact, the Government has not engaged in a pattern of actions inconsistent with the eligibility criteria for MCC Funding.

Section 7.2 Date of Entry Into Force

This Compact will enter into force on the date of the last letter in an exchange of letters between the Principal Representatives confirming that each Party has completed its domestic requirements for entry into force of this Compact and that the conditions precedent to entry into force of Section 7.1 have been met. The letter from the Government will contain an affirmation of the Government's commitment to its obligations hereunder and under the Program Implementation Agreement.

Section 7.3 Compact Term

This Compact will remain in force for five (5) years after its entry into force, unless terminated earlier under Section 5.1 (the "*Compact Term*").

Section 7.4 Provisional Application

Upon signature of this Compact and until this Compact has entered into force in accordance with Section 7.2, the Parties will provisionally apply the terms of this Compact and the PIA; *provided that,* no Program Funding will be made available or disbursed before this Compact enters into force.

Article 8. Additional Government Covenants

Section 8.1 Project Covenants

(a) KALAHI–CIDSS Project. With regard to the KALAHI–CIDSS Project, the Government agrees that:

(i) Throughout the Compact Term, the Department of Social Welfare and Development ("*DSWD*") will use the classification system approved by MCC to assess and classify every proposed sub-project, and provide the engineering design and oversight support appropriate to the classification of such sub-project; and

(ii) For those municipalities that are randomly selected to be included in the control group, DSWD will not (1) provide KALAHI–CIDSS funding, or (2) provide other programs of DSWD on a systematic basis, in both cases for the duration of the Compact Term.

(b) Revenue Administration Reform Project. With regard to the Revenue Administration Reform Project, the Government agrees to implement the following prior to the initial disbursement of any Program Funding for the Revenue Administration Reform Project:

(i) To the full extent allowed by existing law, procedures shall be put in place wherein decisions of the Commissioner of Internal Revenue and the Commissioner of Customs in all graft-related cases shall be transmitted promptly to the Secretary of Finance, the head of the Revenue Integrity Protection Service created under Executive Order No. 259, s. 2003, who shall then immediately forward them to the Revenue Integrity Protection Service to review the said cases and determine their compliance with existing laws and procedures. If warranted by the evidence on record and any additional evidence it gathers, the Revenue Integrity Protection Service shall file the necessary complaint(s) with the office of the ombudsman or other appropriate administrative body or agency of competent jurisdiction.

(ii) The Revenue Integrity Protection Service shall actively exercise its powers pursuant to Executive Order No. 259, to ensure the proactive pursuit of graft-related programs, policies and procedures by the internal inspection units of the revenue agencies under the Department of Finance. These actions shall include, but may not be limited to, the conduct of operational audits of said units.

(iii) The Bureau of Internal Revenue and the Bureau of Customs internal audit units will be reorganized directly under the Office of the Commissioner.

In Witness Whereof, the undersigned, duly authorized by their respective governments, have signed this Compact.

Done at New York, NY, this 23rd day of September 2010, in the English language only.

For Millennium Challenge Corporation, on behalf of the United States of America.

Daniel W. Yohannes,
Chief Executive Officer.

For the Republic of the Philippines.

Cesar V. Purisima,
Secretary of Finance.

Annex I Program Description

This Annex I describes the Program that MCC Funding will support in the Philippines during the Compact Term.

A. Program Overview

1. Background and Consultative Process

The Philippines was declared eligible for MCC assistance in March 2008. With a population of approximately 90 million inhabitants, the 7,107 islands of the Philippines cover a combined area of 115,830 square miles. Despite unprecedented growth gains over the past decade, accompanied by moderate inflation, the Philippines continues to face severe constraints to reducing poverty. In an effort to prioritize its development spending, the Government elaborated a national medium-term development plan and several sector strategies, and undertook an analysis of constraints to economic growth. Priorities were identified for increased social sector spending, improvements to basic infrastructure, and improvements to governance, and were confirmed through a number of national, regional, and local consultations from early 2007 through early 2009.

The Program has been designed by the Government, building upon initiatives from numerous donors, non-governmental organizations, and the domestic private sector to spur growth in economically depressed or vulnerable regions and to provide a platform for continued poverty reduction efforts. The Program will enable the Government to increase resources available for high-priority expenditures and target Government initiatives toward some of the poorest regions and municipalities in the archipelago.

2. Program Objective

The Program Objective is to: (a) Increase the incomes of Filipinos through the benefits of community-driven sub-projects; (b) obtain time savings and lower transportation costs for road users in Program areas; and (c) increase investment and government expenditure due to an increase in tax revenue and a reduction in corruption.

3. Environmental and Social Safeguards

The Program will be implemented in compliance with the MCC Environmental Guidelines, MCC guidance on the integration of gender in program implementation, and MCC's guidance on the implementation of resettlement activities (or any other MCC policy comparable to the World Bank's Operational Policy on Involuntary Resettlement in effect as of July 2007) ("*OP 4.12*"). The Government will also ensure that the Projects comply with all national environmental laws and regulations, licenses and permits, except to the extent such compliance would be inconsistent with this Compact. The Government will: (a) Cooperate with any ongoing environmental review, or if necessary undertake and complete any additional environmental reviews required by MCC or under the laws of the Philippines; (b) implement to MCC's satisfaction environmental and social mitigation measures identified in such environmental review; and (c) fund the costs of environmental mitigation (including costs of resettlement) that exceed the MCC Funding specifically allocated for such costs in the budget for any Project. To maximize the positive social impacts of the program, the Government will take steps to address cross-cutting social and gender-specific issues, including, but not limited to, combating human trafficking and HIV/AIDS, during Compact implementation.

B. Description of the Projects

Set forth below is a description of each of the Projects that the Government will implement, or cause to be implemented, using MCC Funding to advance the applicable Project Objective. In addition, specific activities that will be undertaken within each Project (each, an "*Activity*"), including sub-activities, are described.

1. KALAHI–CIDSS Project

(a) Background.

The Philippines lags significantly behind other countries in the region with respect to government development expenditures as a percentage of GDP and infrastructure investment and quality. The Asian Development Bank's 2007 growth diagnostic report found that inadequacies in infrastructure are a critical constraint to growth and that the availability of basic infrastructure (water, sanitation, roads, electricity) is regressive. While human capital was not found to be a critical constraint to growth, inadequate human capabilities are often an underlying cause of poverty. Provision and use of education and health services were found to vary across regions, particularly as a function of incomes. Community driven development projects are a strategy for addressing these constraints and providing community empowerment and poverty reduction. In the past, they have been used to support a wide range of community priority needs including provision of water supply and nutrition programs for women and children; building of school, day care and health facilities, farm to market roads, foot bridges, and drainage systems; and support for productive enterprises such as pre- and post-harvest facilities as well as community capacity building.

Kapit bisig Laban sa Kahirapan ("Linking Arms Against Poverty")—Comprehensive Integrated Delivery of Social Services ("*KALAHI–CIDSS*") is a community driven development project implemented by DSWD of the Philippines. Through KALAHI–CIDSS, communities ("*barangays*" or villages) are trained, together with their local governments, both at the *barangay* and the municipal level, to choose, design and implement sub-projects that are intended to address their most pressing needs. This is done through a four-year program, which includes one year of "social preparation" training for communities, *barangays* and municipalities, followed by 3 "cycles" of sub-project implementation. The KALAHI–CIDSS project to be funded by MCC (the "*KALAHI–CIDSS Project*") is an expansion of an initial KALAHI–CIDSS project ("*KC1*") that was implemented between 2003 and 2010. KC1 was funded by a loan from the World Bank. During KC1 implementation, the World Bank and DSWD were able to ensure that the project incorporated lessons learned and reinforced elements that had been shown to work well.

The KALAHI–CIDSS Project is particularly well suited to the sociopolitical environment in the Philippines. Following decentralization, local governments have a responsibility to provide basic services, yet suffer from a lack of development resources. This issue is compounded by the geographic distribution of poverty in the Philippines. Poverty in the country is correlated with rural isolation and distance from towns and urban centers, meaning that the communities that have the greatest needs for basic services are the ones that are most difficult to reach. Community-driven development offers an alternative, needs-based approach that provides development resources for basic services directly to the poorest communities, specifically targeting those in far-flung areas, while at the same time building the capacity of local government to be responsive to these needs over time. It is because of this contextualized approach that KC1 has already met with considerable success.

(b) Project.

The objectives of the KALAHI–CIDSS Project are to:

- Improve the responsiveness of local governments to community needs;
- Encourage communities to engage in development activities; and
- Deliver benefits to *barangay* residents through the individual sub-projects.

In conjunction with DSWD, MCC will incorporate a number of enhancements to KC1 into the KALAHI–CIDSS Project, all of which are supported by lessons learned from KC1 and desires expressed by KALAHI–CIDSS Project stakeholders. These refinements include, but are not limited to: (i) Dedicated gender staff positions and gender-focused activities, including the provision of "gender incentive grants" to communities; (ii) reinforced financial controls on the Project, including an additional set of transaction and technical audits; (iii) dedicated staff positions to explore private-sector involvement opportunities within municipalities included in the KALAHI–CIDSS Project; (iv) development of a set of user-friendly community tools to assess environmental impact and ensure the KALAHI–CIDSS Project's environmental sustainability; (v) a management information system to enable a much greater level of data capture at the *barangay* and municipal level, including a "geographic information system" component; (vi) a rigorous impact evaluation to assess the KALAHI–CIDSS Project's impact on social capital and welfare measures using a rigorous random selection technique that allows the measurement of attribution; and (vii) support for a joint advisory board to oversee the impact evaluation, composed of members from MCC, MCA–Philippines, the World Bank, DSWD, the National Economic Development Authority, and local academics.

The KALAHI–CIDSS Project will cover municipalities that have a poverty incidence higher than the national average and that are not in the Mindanao island group. The KALAHI–CIDSS Project consists of the following Activities:

(i) Capacity Building and Implementation Support Activity.

MCC Funding will be granted to DSWD to provide the staff salaries and trainings for the DSWD frontline workers, known as the area coordinating teams. These teams are made up of a standard staffing complement and there will be one team for each municipality in the KALAHI–CIDSS Project. The role of the area coordinating team is to carry out the "Community Empowerment Activity Cycle." This framework follows a progression of strategies and activities as a gradual "hand off" to local government of responsibilities takes place over the course of three cycles. During each cycle, *barangay*s hold a series of meetings that are facilitated by members of the area coordinating team at which *barangay* residents identify and prioritize constraints to economic activities within their communities and then identify and prioritize solutions to these constraints. Finally, the *barangay* selects one constraint and associated solution for presentation by elected community representatives to the "Municipal Inter-*Barangay* Forum." At the municipal level, two Municipal Inter-*Barangay* Forums are held, the first to determine the criteria by which the community representatives will prioritize the *barangay* sub-projects for funding and the second to prioritize them according to such criteria. At the conclusion of each of the three cycles of sub-project implementation, there is a transition and reporting period. The entire Community Empowerment Activity Cycle process is facilitated by the area coordinating team, with various team members responsible for ensuring that processes are transparent and in accordance with the KALAHI–CIDSS Project manuals as revised by MCC. This Activity also supports the existing grievance redress system.

(ii) Grants for Community Projects Activity.

MCC Funding will be granted to DSWD, to be used by DSWD to plan and implement community-chosen sub-projects in accordance with the KALAHI–CIDSS Project manuals approved by MCC. Specifically, the KALAHI–CIDSS Project provides grants for livelihood activities and the construction, repair and improvement/upgrading of small-scale rural infrastructure sub-projects identified by the community. The municipalities and *barangays* in which sub-project activities will occur will make cash and in-kind contributions (including partially-paid labor and local materials) to the sub-projects equal, in each case, to at least 30 percent of the total sub-project costs. The grant allocated to the municipal local governments to fund sub-project implementation is proportionate in size to the number of *barangay*s within that municipality. Suppliers and contractors will be selected according to the procedures in the "Community-Based Procurement System." This procurement system was specifically designed for implementing the KALAHI–CIDSS Project taking into account the nature of the procurements, the local market conditions and the local capacities. At the community level an "Audit and Inventory Committee" is responsible for auditing the financial records and reports of the community and conducting a regular inventory of all properties acquired by the community. The community's books and records are open at all times to all members of the community for inspection.

Communities have the opportunity to select from a variety of sub-projects, many which involve the selection, design, and construction of small infrastructure sub-projects. DSWD—in cooperation with local governments—will build the capacity of communities through trainings and other methods and provide guidance and oversight throughout the process. In cooperation with DSWD, MCC will create a detailed risk profiling system for sub-projects and a complementary risk-based management approach to oversight that may affect the way that the grants are spent within the Grants for Community Project Activity.

(iii) Project Management Activity.

MCC Funding will be granted to DSWD to provide salaries and training for DSWD project management staff at the regional and national level. These funds will also be used for the office space, conferences, capacity building and project monitoring associated with the project management activity. Goods to support this activity will be procured by MCA-Philippines.

(c) Beneficiaries.

In the project catchment areas (*i.e.* those municipalities that will receive support from the KALAHI–CIDSS Project), 16 to 20 percent of the households have a female head, while the young and elderly constitute a significant fraction of the expected beneficiaries. The Project is expected to benefit approximately 5.2 million Filipinos 20 years after the Compact enters into force. Of these, 39 percent consume below the poverty line of US$2 (in 2005 PPP US dollars) per day (compared to 28 percent of the national population). As for the extreme poor, 13 percent of the Project's beneficiaries consume below US$1.25 a day (compared to 9 percent of the national population). And as for the non-poor, only 26 percent of this Project's beneficiaries consume above US$4 a day (as opposed to 38 percent of the national population). Overall, the Project is well-targeted to the poor.

(d) Donor Coordination.

MCC worked closely with the World Bank on issues of targeting and impact evaluation strategy over the course of project development in 2009. As of January 2010, the World Bank intends to provide an additional loan to expand KC1. The World Bank and MCC plan to continue close collaboration during and beyond the scope of this additional funding and share lessons learned with each other and with DSWD as KALAHI–CIDSS continues to mature and develop towards a potential national expansion that could involve many other donors. MCC will also be joining DSWD's donor forum related to KALAHI–CIDSS.

(e) USAID.

The United States Agency for International Development ("*USAID*") has had significant experience with community-based development that targets poor communities, and the "Growth with Equity in Mindanao" Program has provided a number of lessons for the implementation of the KALAHI–CIDSS Project as it relates to small-infrastructure construction specifically. Approximately 60 percent of USAID's program funding is provided to Mindanao and the agency aims to continue these investments and others like it in the region. Therefore, USAID, the World Bank and MCC agreed that MCC would concentrate its KALAHI–CIDSS Project in the Luzon and Visayas regions thereby broadening the reach of such programs throughout the Philippines.

(f) Sustainability.

The implementation methods used in this Project emphasize transparency and accountability in local decision making, attributes which enable small infrastructure sub-projects to contribute to a more empowered citizenry, a more responsive government and ultimately to more sustainable community assets. The process of involving communities in sub-project activities builds their capacity to take charge of their own development within the KALAHI–CIDSS Project and beyond, reduces corruption, increases accountability for the use of resources and results in more and better distributed assets as communities build a sense of ownership around these assets.

DSWD will use a set of sustainability and functionality evaluation tools to assess MCC-funded sub-projects and will target those sub-projects experiencing sustainability-related difficulties with additional resources to resolve them. MCC's risk profiling and risk management approach described above will also contribute to sub-project sustainability by ensuring that the most risk-prone projects are designed and constructed to minimize risk, reducing the likelihood of sub-project failure.

The sustainability of the KALAHI–CIDSS Project and its ability to attract new and continued resources from both the Government and other donors is closely related to its ability to demonstrate continuing project successes as it moves towards a national scale. MCC Funding will be used for a robust impact evaluation that will assist the Government in evaluating the effectiveness of the community-driven development model.

2. Secondary National Roads Development Project

(a) Background.

Road transportation is the dominant transport mode in the Philippines, accounting for 53 percent of freight ton-kilometers and 89 percent of passenger ton-kilometers. The Philippines has a total road network of about 200,000 km, including about 29,000 km of national roads. Approximately 79 percent of the national arterial roads are paved, and 48 percent of these require rehabilitation.[1]

Inter- and intra-island transport systems have 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. This is particularly true in many poor areas of the Philippines, where adequate accessibility has the potential to lower marketing costs for local agricultural products, improve access of the local population to social services and economic opportunities, and be a catalyst for investments to develop local resources.

(b) Project.

The objectives of the Project to be funded by MCC in respect of the sections of the Samar road described below (the "*Secondary National Roads Development Project*") are to: (i) Save time; and (ii) lower vehicle operating costs for those Filipinos living near the roads. This Project consists of the following Activity:

(i) Samar Road Activity.

MCC Funding will be used to reconstruct and rehabilitate 220 km of the Samar road crossing the provinces of Samar and Eastern Samar, of which approximately 180 km will undergo reconstruction/major rehabilitation while 40 km will receive only minor rehabilitation, as well as the replacement or upgrading of associated structures, such as bridges and culverts, to eliminate flooding and improve road safety. The road begins at the junction of Highway-Buray Wright (km 827 + 200) in Samar, and traverses eastward along primarily mountainous terrain to Taft (km 890 + 000). From Taft, it continues southward, along the coastline of Eastern Samar, ending in the town of Guiuan (km 1047 + 300). The section of road from Wright to Taft is an important east-west corridor providing inter-provincial connection between Samar and Eastern Samar. The section of the road from Taft to Guiuan provides the only access to 13 coastal municipalities. The capital of Eastern Samar, Borongan, is located centrally on this section of the road.

(1) Construction costs. These costs include, without limitation, pavement rehabilitation and strengthening, embankment construction, road safety improvements, replacement or upgrading of associated structures, such as bridges, drainage systems and culverts, and any activity associated with the environmental management plan developed with respect to the Samar Road Activity.

(2) Non-construction costs. These costs include, without limitation, studies, construction supervision, environmental and social mitigation (including resettlement), and other project management costs and technical assistance to be incurred in connection with the Samar Road Activity.

(c) Beneficiaries.

A 2006 household survey shows that in this Project's regions, two of the most common occupations for household heads are farmers and drivers. These people would be expected to rely significantly on transportation infrastructure. The survey indicates, in addition, that from 16 to 20 percent of households have a female head, while the young and elderly constitute significant fractions of household members in the Project regions. Improvement of the road will benefit the users and owners of motorized vehicles, including laborers, enterprises, consumers and tourists. Estimates of the total number of beneficiaries are based upon a percentage of the populations of municipalities through which this road will pass.

The beneficiary analysis conducted as part of the project appraisal process has estimated that approximately 282,000 people will benefit from rehabilitation of the Samar road. Thirteen percent of the beneficiaries are estimated to consume below the poverty line of US$1.25 per day in 2005 PPP US dollars, while 42 percent of project beneficiaries are estimated to consume below US$2 per day. Relative to the national distribution of consumption, the beneficiaries of the Samar road are substantially poorer. Aggregated over 25 years, beneficiaries are expected to accumulate an increment equal to 86 percent of their 2009 annual (median) income due to this Project.

(d) Donor Coordination.

The Secondary National Road Development Project is anchored on preliminary work undertaken with the assistance of Japan Bank for International Cooperation (now known as the Japan International Cooperation Agency), which was instrumental in identifying viable priority road segments eligible for MCC investments.

MCC has coordinated closely with the World Bank on the ongoing efforts in: (i) Road sector reform; (ii) improving the adequacy of the "Special Road Support Fund" (as described below); (iii) improving governance structure for the Special Road Support Fund; (iv) standardizing measures and approaches used to combat corruption and to increase accountability (funded by the Australian Agency for International Development) during project execution; and (v) standardizing technical audits.

(e) USAID.

While USAID is not currently active in secondary national road rehabilitation in the Philippines, USAID's "Growth with Equity in Mindanao" Program mentioned above includes the development of road infrastructure.

(f) Sustainability.

There are two main sources of public finance for the national road network: (i) The General Appropriations Act; and (ii) a "Special Road Support Fund" that is financed by the imposition of a motor vehicle user charge. The overall resources devoted to the national road sector have increased considerably since 2004.

[1] "Philippines: Critical Development Constraints," Asian Development Bank, December 2007.

Despite the large increases, there remains a considerable gap (about 30 billion Philippine pesos) between the sector's need and the projected resource allocation. To meet the overall needs of the sector and reduce the existing gap, greater funding is required from three sources. The first source is increased government budgetary allocations for the sector. The second source is the private sector, the resources of which can be utilized for network expansion when roads involve expressways that can be subject to tolling arrangements. The third source of revenue is the Special Road Support Fund. To improve sustainability, the Government needs to augment revenues from the motor vehicle user charge through raising the current charge, indexing such charge to the general price level, and by introducing a fuel levy.

3. Revenue Administration Reform Project

(a) Background.

The Asian Development Bank cited the Philippines' tight fiscal situation as one of its most significant constraints to growth.[2] One consequence of the Philippines' tight fiscal situation is its limited ability to fund its growing needs for basic infrastructure and social programs and, thereby, to reduce poverty. The Philippines has seen a declining rate of tax effectiveness, *i.e.* tax revenues divided by GDP, in recent years due in part to legislated reductions in corporate tax rates and increases in personal exemptions.

In addition, tax-related patterns of non-compliance and tax administration inefficiencies contribute to a poor business climate and, ultimately, to a reduced rate of domestic investment. Since the Asian financial crisis of 1997, the Philippines has ranked the lowest among its major regional neighbors in foreign direct investment.[3] The Philippines has struggled in recent years to improve its international rankings with regard to corruption.

MCC supported some of the Government's anti-corruption efforts through MCC's Philippines Threshold Program that sought to improve the Government's office of the ombudsman's pursuit of tax evaders and smugglers as well as to roll out nationwide the Integrated Tax System in offices of the Bureau of Internal Revenue ("*BIR*"). Several of the themes of MCC's Philippines Threshold Program have carried over into this Project.

(b) Project.

The objectives of the Project to be supported by MCC Funding in connection with the reform of tax collection in the Philippines (the "*Revenue Administration Reform Project*") are to increase tax revenues over time and to support the Department of Finance's initiatives to detect and deter corruption within its revenue agencies. The Project consists of two Activities as further described below: (i) An Activity focused on BIR's efforts to re-engineer its policies and practices and to implement the electronic Tax Information System ("*eTIS*"); and (ii) an Activity focused on supporting the Philippines' Revenue Integrity Protection Service ("*RIPS*") the anti-graft investigation unit within the Department of Finance. In turn, the BIR-focused Activity will consist of three sub-activities as further described below: (1) The implementation of eTIS; (2) the utilization of automated auditing tools in the large taxpayer unit; and (3) a public awareness campaign to disseminate information about BIR's reform and enforcement activities.

(i) BIR Revenue Administration Reform Activity.

(1) eTIS sub-Activity.

MCC Funding will provide an International Monetary Fund ("*IMF*") resident advisor on tax administration, and support the cost of short-term IMF tax administration specialists as well as other systems and technology consultants, the training of BIR staff, and the procurement of equipment related to the implementation of eTIS. This sub-Activity will improve the trustworthiness of data, increase access to that data, and improve the actions and decisions based on that data. From a tax administration perspective these results can be described as improving compliance monitoring, reducing client contact and the concomitant opportunities for negotiated assessments, increasing the likelihood of the detection of misreporting, and improving the value of reports. These are the components that will contribute to a sustainable program of tax administration with improved compliance, audit and enforcement tools.

(2) Automated Auditing Tools Sub-Activity.

MCC Funding will purchase software licenses for automated auditing tools and provide computers to run them. MCC Funding will also pay for a subscription to a data base service to provide BIR with transfer pricing information and provide training for the use of these tools. The automated auditing tools will leverage a recent BIR decision that requires large taxpayers to maintain and submit tax records in digital form and will also expand on a pilot program sponsored by the Swedish International Development Agency that demonstrates the values of these tools. These auditing tools have demonstrated their revenue-raising potential, and they also reduce by half the number of days it takes to complete an audit. These tools also remove one taxpayer concern about the fairness of an audit that is based on sampling rather than a review of all transactions. The reduction in man days per audit will help the BIR to reduce its backlog of unfinished audits.

(3) Public Awareness Campaign Sub-Activity.

MCC Funding will provide consulting services and support the costs of implementing a public awareness campaign regarding BIR services and programs. Individuals and businesses in the Philippines have a limited understanding of their tax obligations and BIR programs. Many BIR services—particularly on-line services—are under-utilized. Greater understanding of tax obligations, and an increased ability to access tax information, should lead to better compliance. It is also hoped that, as with the eTIS sub-Activity, utilization of on-line services will reduce the opportunities for corruption that in-person transactions may provide. The public awareness campaign is intended to promote increased compliance with tax rules and thus increased revenue collection through better public and business awareness of the BIR's plans, programs, initiatives, policies and practices.

(ii) RIPS Activity.

MCC Funding will fund the acquisition and customization of case management software, a related data depository system, and training. This will support RIPS, a relatively new unit within the Department of Finance, and is intended to strengthen surveillance and discipline of the Department of Finance and its attached agencies through administrative actions such as temporary suspensions or dismissals. Experience in MCC's Philippines Threshold Program showed that actions taken through the courts in the Philippines are slow and that, even when a conviction is secured, punishment is likely to be deferred and/or reduced through subsequent appeals. For that reason, this Activity focuses on trying to detect and punish those forms of malfeasance that permit revenue agents to reap financial rewards from taxpayers. By increasing the likelihood of detection and punishment, the frequency of such incidents will decline. If effective, this should improve the image of revenue generating agencies and also support increased collections and improve the business climate within the Philippines.

(g) Beneficiaries.

Beneficiary analysis for the Revenue Administration Reform Project is undertaken at the level of the overall Project since the incidence of benefits from each Activity is expected to be spread broadly throughout the Philippine population. Accordingly, aggregation at the Project level is reasonable.

Identifying beneficiaries in this broad-based, national program is challenging. It is reasonable to expect, however, that a majority of the population of the Philippines will—due to increased public revenues and expenditures or domestic investments—enjoy at least a small increase to their incomes over the benefits horizon of 2011 to 2030. Accordingly, MCC estimates (conservatively) that 85 percent of the country's population, which will be approximately 125 million people, are beneficiaries of this Project by 2030. Consequently, the distribution of the Revenue Administration Reform Project's benefits by poverty level mirrors the national population's poverty distribution.

Since rates of access to health and education services are already relatively high in the Philippines, most Project impacts will be realized as increases in quality and reliability of existing services. As a consequence, and also due to the large number of beneficiaries expected for the project, per-beneficiary benefits are fairly modest.

(h) Donor Coordination.

The due diligence for the tax administration aspects of the Revenue Administration Reform Project was undertaken in close cooperation with the IMF's Fiscal Affairs Division as well as with the World Bank's National Program Supporting Tax Administration Reform program to support tax reform efforts in the

[2] "Philippines: Critical Development Constraints," Asian Development Bank, December 2007, p. 49.

[3] *Ibid.* p. 26.

Philippines. The outlines of the eTIS sub-Activity and its emphasis on process redesign and training are based on long-standing recommendations that have been made by the IMF and World Bank to the BIR.

It is anticipated that the tax administration advisors provided to the BIR under the Compact will be sourced through the IMF and coordinated by a resident IMF advisor in Manila, the Philippines.

The Automated Audit Tools sub-Activity builds on the previous efforts of the Swedish International Development Agency and the World Bank. Both donors have sponsored pilot programs in the utilization of automated audit tools.

(i) USAID.

MCC's due diligence relied heavily on the reports and findings of MCC's Philippines Threshold Program administered by USAID. That program included support for anti-corruption activities under the aegis of the office of the ombudsman, and assistance to the Department of Finance's anti-corruption units, as well as the extension of the Integrated Tax System (eTIS' predecessor) to regional offices that had not previously been able to implement that system. The lessons learned under MCC's Philippines Threshold Program were the basis for decisions to focus on internal administrative disciplinary procedures (the focus of the RIPS Activity) rather than the pursuit of tax evaders and smugglers through the courts, to broaden the scope of tax administration, and to focus more resources on training and process redesign than on hardware and software.

(j) Sustainability.

A critical ingredient to the success of this complex undertaking is the continued commitment of the Department of Finance to embark on a program that is likely to meet with staff as well as taxpayer resistance and to manage the personnel, organizational and technical issues that will require both vision and resolve. Maintaining that commitment over the course of the Compact Term will be a test of BIR's and the Department of Finance's management skills and staff capacity.

(k) Policy, Legal, Regulatory and Other Reforms.

The Department of Finance has completed or committed to complete a number of policy, legal, regulatory and other reforms in order to achieve success under this Project. These reforms are referenced in the Compact, the Program Implementation Agreement, and in other documents.

4. Implementation Framework

(a) Overview.

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring and evaluation, and fiscal accountability for the use of MCC Funding are summarized below. MCC and the Government will enter into the Program Implementation Agreement, and any other agreements in furtherance of this Compact, all of which, together with this Compact, set out certain rights, responsibilities, duties and other terms relating to the implementation of the Program.

(b) MCC.

MCC will take all appropriate actions to carry out its responsibilities in connection with this Compact and the Program Implementation Agreement, including the exercise of its approval rights in connection with the implementation of the Program.

(c) MCA-Philippines.

In accordance with Section 3.2(b) of this Compact, MCA-Philippines will act on the Government's behalf to implement the Program and to exercise and perform the Government's rights and responsibilities with respect to the oversight, management, monitoring and evaluation, and implementation of the Program, including, without limitation, managing the implementation of Projects and their Activities, allocating resources, and managing procurements. The Government will ensure that MCA-Philippines takes all appropriate actions to implement the Program, including the exercise and performance of the rights and responsibilities designated to it by the Government pursuant to this Compact and the Program Implementation Agreement. Without limiting the foregoing, the Government will also ensure that MCA-Philippines has full decision-making autonomy, including, *inter alia,* the ability, without consultation with, or the consent or approval of, any other party, to: (i) Enter into contracts in its own name; (ii) sue and be sued; (iii) establish Permitted Accounts in a financial institution in the name of MCA-Philippines and hold MCC Funding in such accounts; (iv) expend MCC Funding; (v) engage a fiscal agent who will act on behalf of MCA-Philippines on terms acceptable to MCC; (vi) engage one or more procurement agents who will act on behalf of MCA-Philippines, on terms acceptable to MCC, to manage the acquisition of the goods, works, and services required by MCA-Philippines to implement this Compact; and (vii) competitively engage one or more auditors to conduct audits of its accounts. The Government will take the necessary actions to establish and maintain MCA-Philippines, in accordance with the terms hereof including the applicable conditions precedent to the Disbursement of Compact Implementation Funding set forth in Annex IV to this Compact.

MCA-Philippines will be administered and managed by a Board of Trustees and a Management Unit. In addition, MCA-Philippines will have a Stakeholders' Committee to continue the consultative process during implementation of the Program. The governance of MCA-Philippines will be set forth in more detail in the Establishment Decree, the Program Implementation Agreement, and the internal regulations of MCA-Philippines ("*MCA-Philippines Bylaws*"), which will, collectively, set forth the responsibilities of the Board of Trustees, the Stakeholders' Committee and the Management Unit. The MCA-Philippines Bylaws will be developed and adopted in accordance with MCC's Guidelines for Accountable Entities and Implementation Structures, published on the MCC Web site (the "*Governance Guidelines*"), and will be in form and substance satisfactory to MCC.

(i) Board of Trustees.

(1) Composition. MCA-Philippines will be governed by a board of trustees (the "*Board of Trustees*"), which will consist of voting members representing those Government departments and civil society and private sector organizations set forth in the Establishment Decree and the MCA-Philippines Bylaws. The Board of Trustees will also consist of those non-voting observers set forth in the MCA-Philippines Bylaws. All voting members will be selected in accordance with the MCA-Philippines Bylaws and must be sufficiently senior and qualified to make decisions on behalf of their respective ministries and civil society and private sector organizations, as applicable. Each voting member named to serve on the Board of Trustees, and any replacement for any voting member or any alteration of the size or composition of the Board of Trustees, will be subject to MCC prior approval.

(2) Roles and Responsibilities. The Board of Trustees will be responsible for overseeing the implementation of the Program and will have final decision-making authority over the implementation of the Program. The Board of Trustees will meet regularly; the frequency of meetings will be set forth in the MCA-Philippines Bylaws and will be in accordance with the Governance Guidelines. The specific roles of the voting members and non-voting observers will be set forth in the Establishment Decree and the MCA-Philippines Bylaws.

(ii) Stakeholders' Committee.

(1) Composition. The composition of the Stakeholders' Committee will be selected in accordance with the MCA-Philippines Bylaws and the Governance Guidelines and subject to MCC approval (the "*Stakeholders' Committee*"). Without limiting the foregoing, the Establishment Decree provides that the Stakeholders' Committee will be composed of, *inter alia,* representatives from non-governmental organizations, civil society, private sector, and local and regional government Program beneficiaries.

(2) Roles and Responsibilities. Consistent with the Governance Guidelines, the Stakeholders' Committee will be responsible for continuing the consultative process throughout implementation of the Program. While the Stakeholders' Committee will not have any decision-making authority, it will be responsible for, *inter alia,* reviewing, at the request of the Board of Trustees or the Management Unit, certain reports, agreements, and documents related to the implementation of the Program in order to provide advice and input to MCA-Philippines regarding the implementation of the Program.

(iii) Management Unit.

(1) Composition. The management unit, which will be led by a competitively selected Managing Director, will be composed of competitively selected staff with expertise in the key components of the Program, including, without limitation, a KALAHI–CIDSS Project Director, a Secondary National Roads Development Director, a Revenue Administration Reform Director, as well as a Deputy Managing Director and other key Directors, including, without limitation, a Director for Finance, a Director for Legal/General Counsel, a Director for Procurement,

a Director for Social and Environmental Assessment, and a Director for Monitoring and Evaluation, (the "*Management Unit*"). The Management Unit will also include such other personnel as provided for in the MCA-Philippines Bylaws. The directors will be supported by appropriate additional staff to enable the Management Unit to execute its roles and responsibilities.

(2) Roles and Responsibilities. The Management Unit will be based in Manila, the Philippines, and will be responsible for managing the day-to-day implementation of the Program, with oversight from the Board of Trustees. The Management Unit will serve as the principal link between MCC and the Government, and will be accountable for the successful execution of the Program, each Project, and each Activity. As a Government entity, MCA-Philippines will be subject to Government audit requirements. As a recipient of MCC Funding, MCA-Philippines will also be subject to MCC audit requirements.

(d) Implementing Entities.

Subject to the terms and conditions of this Compact and any other related agreements entered into in connection with this Compact, the Government and MCC have identified certain principal public institutions that may or will serve as implementing entities (each, an "*Implementing Entity*"), to implement and carry out certain Projects, Activities or components thereof in furtherance of this Compact. Any Implementing Entity will be subject to review and approval by MCC. The Government will ensure that the roles and responsibilities of each Implementing Entity and other appropriate terms are set forth in an agreement between MCA-Philippines and each Implementing Entity, which agreement must be in form and substance satisfactory to MCC (each an "*Implementing Entity Agreement*").

(e) Fiscal Agent.

Unless MCC otherwise agrees in writing, the Government, directly or through MCA-Philippines, will engage a fiscal agent (a "*Fiscal Agent*"), who will be responsible for assisting the Government with its fiscal management and ensure appropriate fiscal accountability of MCC Funding, and whose duties will include those set forth in the Program Implementation Agreement.

(f) Procurement Agent.

Unless MCC otherwise agrees in writing, the Government, directly or through MCA-Philippines, will engage one or more procurement agents (each, a "*Procurement Agent*") to carry out and certify specified procurement activities in furtherance of this Compact. The roles and responsibilities of each Procurement Agent will be set forth in the Program Implementation Agreement or such agreement as the Government, directly or through MCA-Philippines, enters into with each Procurement Agent, which agreement will be in form and substance satisfactory to MCC. Each Procurement Agent will adhere to the procurement standards set forth in the MCC Program Procurement Guidelines and ensure procurements are consistent with the procurement plan adopted by MCA-Philippines pursuant to the Program Implementation Agreement, unless MCC otherwise agrees in writing.

Annex II Multi-Year Financial Plan Summary

This Annex II summarizes the multi-year financial plan for the Program.

1. General

A multi-year financial plan summary ("*Multi-Year Financial Plan Summary*") is set forth below. By such time as is specified in the Program Implementation Agreement, the Government will adopt, subject to MCC approval, a multi-year financial plan that includes, in addition to the multi-year summary of estimated MCC Funding, the annual and quarterly funding requirements for the Program (including administrative costs) and for each Project, projected both on a commitment and cash requirement basis. The Multi-Year Financial Plan Summary below does not include the contributions by the Government to the Program.

MULTI-YEAR FINANCIAL PLAN SUMMARY

[Millions of US$]

Project	CIF	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1. Revenue Administration Reform Project:							
(a) BIR Revenue Administration Reform Activity	7.30	11.50	15.90	9.00	5.60	1.00	50.30
(b) Revenue Integrity Protection Services (RIPS) Activity	....	0.50	3.35	0.15	....	....	4.00
Sub-Total	7.30	12.00	19.25	9.15	5.60	1.00	54.30
2. KALAHI–CIDSS:							
(a) Capacity Building and Implementing Support	....	4.91	2.84	1.48	1.11	0.28	10.62
(b) Grants for Community Projects	....	1.82	20.43	17.99	30.81	24.46	95.51
(c) Project Management	2.31	3.06	2.31	1.93	1.87	2.39	13.87
Sub-Total	2.31	9.79	25.58	21.40	33.79	27.13	120.00
3. Secondary National Roads Development Program:							
(a) Samar road	5.66	6.61	36.01	54.38	57.30	40.22	200.18
(b) Environmental and Social Mitigation	5.09	6.53	0.82	0.87	0.95	....	14.26
Sub-Total	10.75	13.14	36.83	55.25	58.25	40.22	214.44
4. Monitoring and Evaluation:							
Monitoring and Evaluation	0.24	2.13	1.44	1.13	1.59	1.73	8.26
Sub-Total	0.24	2.13	1.44	1.13	1.59	1.73	8.26
5. Compact Administration & Oversight:							
(a) Program Administration	4.46	3.24	3.28	3.33	3.42	3.38	21.11
(b) Program Audits	....	0.36	0.46	0.46	0.46	0.46	2.20
(c) Fiscal Agent	....	1.50	1.50	1.50	1.50	1.50	7.50
(d) Procurement Agent	....	1.40	1.40	1.10	1.10	1.10	6.10
Sub-Total—Compact Administration & Audit	4.46	6.50	6.64	6.39	6.48	6.44	36.91
Total Estimated MCC Contribution	25.06	43.56	89.74	93.32	105.71	76.52	433.91

Annex III Description of the Monitoring and Evaluation Plan

This Annex III (this "*M&E Annex*") generally describes the components of the Monitoring and Evaluation Plan ("*M&E Plan*") for the Program. The actual content and form of the M&E Plan will be agreed to by MCC and the Government in accordance with the Program Implementation Agreement. The M&E Plan may be modified from time to time with MCC approval without requiring an amendment to this Annex III.

1. Overview

MCC and the Government will formulate and agree to, and the Government will implement, or cause to be implemented, an M&E Plan that specifies (a) how progress toward the Compact Goal, Program Objective and Project Objectives will be monitored ("*Monitoring Component*"), (b) a process and timeline for the monitoring of planned, ongoing, or completed Activities to determine their efficiency and effectiveness, and (c) a methodology for assessment and rigorous evaluation of the outcomes and impact of the Program ("*Evaluation Component*"). Information regarding the Program's performance, including the M&E Plan, and any amendments or modifications thereto, as well as progress, evaluation, and other reports, will be made publicly available on the Web site of MCA-Philippines and elsewhere.

2. Program Logic

The M&E Plan will be built on a logic model which illustrates how the Program, Projects and Activities contribute to the Compact Goal, the Program Objective and the Project Objectives. The goal of this Compact is to reduce poverty through economic growth. The Program Objective is to (a) increase the incomes of Filipinos through the benefits of community-driven sub-projects, (b) obtain time savings and lower transportation costs for road users in Program areas, and (c) increase investment and government expenditure due to an increase in tax revenue and a reduction in corruption. The corresponding Project Objectives are:

(a) The KALAHI–CIDSS Project expects to improve the responsiveness of local governments to community needs, encourage communities to engage in development activities and deliver benefits to *barangay* residents through the individual sub-projects.

(b) The Secondary National Roads Development Project expects to lower vehicle operating costs and save the time of those Filipinos living near the roads.

(c) The Revenue Administration Reform Project expects to increase tax revenues over time and support the Department of Finance's initiatives to detect and deter corruption within its revenue agencies.

3. Monitoring Component

To monitor progress toward the achievement of the desired impact and outcomes of the Compact, the Monitoring Component of the M&E Plan will identify (a) the Indicators (as defined below), (b) the definitions of the Indicators, (c) the sources and methods for data collection, (d) the frequency for data collection, (e) the party or parties responsible, and (f) the timeline for reporting on each Indicator to MCC.

Further, the Monitoring Component will track changes in the selected Indicators as a means for measuring progress towards the achievement of the objectives during the Compact Term. The M&E Plan will establish baselines which measure the situation prior to a development intervention, against which progress can be assessed or comparisons made (including evaluations and special studies) (each, a "*Baseline*"). MCA-Philippines will collect Baselines on the selected Indicators or verify already collected Baselines where applicable and as set forth in the M&E Plan.

(a) Indicators. The M&E Plan will measure the results of the Program using quantitative, objective and reliable data ("*Indicators*"). Each Indicator will have benchmarks that specify the expected value and the expected time by which that result will be achieved ("*Target*"). The M&E Plan will be prepared in accordance with the MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs. All Indicators will be disaggregated by gender, income level and age, and beneficiary types to the extent practicable. Subject to prior written approval from MCC, MCA-Philippines may add Indicators or refine the definitions and Targets of existing Indicators.

(i) Compact Indicators.

(1) Goal. The M&E Plan will contain the following Indicators related to the Compact Goal. These Indicators of national goals are specified in the "Medium-Term Philippine Development Plan" to which the Projects contributes, but are not solely attributable to the Projects:

(A) Annual growth in Gross National Product.

(B) Percent of households living below the subsistence poverty line.

(2) Other Indicators. The M&E Plan will contain the Indicators listed in the following tables.

TABLE 1—M&E INDICATORS FOR KALAHI–CIDSS PROJECT

Result	Indicator	Definition of indicator	Baseline [4]	Year 5 [5]
Objective Level				
Increased responsiveness of Local Government Units (LGUs) to community needs.	Use of inclusive Community Driven Development (CDD) processes by local governments.	Percentage of project municipal local government units (MLGUs) that have meetings with community representatives to solicit inputs to municipal development plans and/or percentage of *barangays* that reflect community priorities in their *barangay* development plans.	TBD	80%
	LGU provision of funds for O&M	Percentage of MLGUs that provide funding support for KALAHI–CIDSS sub-project O&M.	0%	80%
	LGU application of CDD practices to non-KALAHI–CIDSS activities.	Number of project MLGUs that pass ordinances/resolutions adopting CDD principles.	TBD	TBD
Increased community engagement in development activities.	Participation of women in local government.	Number of women representatives in targeted areas.	TBD	TBD
	Community engagement in development activities.	Percentage of MCC-funded KALAHI–CIDSS-developed community organizations that have satisfactory organizational performance ratings.	0%	80%

[4] As the municipalities are due to be randomly selected, baseline figures are not yet known.

[5] These figures are indicative.

[6] The baseline levels for these indicators will be determined by the initial round of data collection in the selected municipalities. The targets will be informed by this information and by the results of the endline data collection in KC1 areas.

[7] The precise indicators, definitions, baseline level and final targets will be determined by the initial round of data collection in the selected control and treatment municipalities. The targets will be informed by this information and by the results of the endline data collection in KC1 areas.

TABLE 1—M&E INDICATORS FOR KALAHI–CIDSS PROJECT—Continued

Result	Indicator	Definition of indicator	Baseline [4]	Year 5 [5]
		Percentage of communities that attract additional funding for development activities after the KALAHI–CIDSS Project is completed.	0%	30%
Increased value of sub-project benefits [6].	Aggregate value of benefits of sub-projects..	(Varies, please see below)		
Outcome Level				
Increased LGU engagement	LGU provision of funds	Percentage of LGUs that provide at least 80% of Memorandum of Agreement (MOA) funding requirements.	0%	90%
	LGU provision of technical support	Percentage of LGUs that provide at least 80% of MOA technical support requirements.	0%	90%
Increased community engagement	*Barangay* assembly participation	Percentage of *barangay* assemblies with 80% of community households represented.	TBD	80%
	Marginalized group participation	Percentage of *barangay* assemblies with 65% of youth, women, indigenous people and poorest households represented.	TBD	80%
Increased value of sub-project benefits [7].	Time savings		TBD	TBD
	Labor force participation (by age and gender).		TBD	TBD
	School enrollment		TBD	TBD
	Number of beneficiary farming households.		TBD	TBD
	Yield of paddy rice		TBD	TBD
	Water consumption (by use)		TBD	TBD
	Use of *barangay* health facilities		TBD	TBD
	Post-harvest losses		TBD	TBD
Output Level				
Sub-projects delivered	Sub-projects completed	Number of completed sub-projects (by type).	0	3400
Sub-projects sustained	Sub-projects sustained	Percentage of sub-projects that pass functionality audits or receive satisfactory or higher ratings of sustainability.	0%	80%

TABLE 2—M&E INDICATORS FOR SECONDARY NATIONAL ROADS DEVELOPMENT PROJECT

Result	Indicator	Definition of indicator	Road	Baseline	Year 5	Year 20
Objective Level						
Net incomes of road users increased.	Costs to road users	Aggregate value of time savings (in 2009US$m) [8].	Wright-Taft- Borongan-Guiuan.	NA	5.2	9.5
		Change in aggregate vehicle operating cost (in 2009US$m) [9].	Wright-Taft- Borongan-Guiuan.	NA	9.4	16.5
Outcome Level						
Improved road quality	Roughness	International Roughness Index of the road segments supported by the Compact.	Wright-Taft- Borongan-Guiuan.	[10] 7.1	1.8	5.8
Increased vehicle activity	Average Annual Daily Traffic (AADT).	AADT on the road segments supported by the Compact.	Wright-Taft- Borongan-Guiuan.	1,179	1,450	2,720
Lower maintenance costs	Maintenance savings	Reduction in annual maintenance spending (in 2009US$m) [11].	Wright-Taft- Borongan-Guiuan.	NA	0.4	0.3

TABLE 2—M&E INDICATORS FOR SECONDARY NATIONAL ROADS DEVELOPMENT PROJECT—Continued

Result	Indicator	Definition of indicator	Road	Baseline	Year 5	Year 20
Output Level						
Roads rehabilitated or built.	Total length	KM of road sections completed—rehabilitated.	Wright-Taft- Borongan-Guiuan.	0	222	222

TABLE 3—M&E INDICATORS FOR REVENUE ADMINISTRATION REFORM PROJECT

Result	Indicator	Definition of indicator	Baseline	Year 5
Project-wide Indicators				
Objective Level				
Increased tax revenues over time	Tax gap	Percentage of tax potential that is actually collected (VAT only).	[12] TBD	TBD
Decreased incidence of corrupt activities within Department of Finance (DOF).	Perceptions of corruption	DOF staff and the general public's perceptions that DOF staff are engaged in corrupt activities.	TBD	TBD
		Perceptions that DOF is taking action to fight corruption.	TBD	TBD
eTIS sub-Activity				
Outcome Level				
Increased number of returns	Number of returns filed	Number of tax returns filed by individuals and corporate business at BIR Revenue District Offices that have implemented eTIS.	TBD	TBD
Corruption perceptions	Perceptions of change in incidence of corruption among BIR employees.	Perceptions of corruption as specifically related to eTIS implementation *e.g.* use of electronic audit.	TBD	TBD
Efficiency perceptions	Perceptions of organizational efficiency among BIR employees.	Perceptions of efficiency as specifically related to eTIS implementation.	TBD	TBD
Output Level				
Increased number of automatically-generated audits.	Number of audits	Automatically-generated (by eTIS) audits broken down by large taxpayer unit and RDOs that have implemented eTIS.	0	TBD
Automated Audit Tools (AATs) sub-Activity				
Outcome Level				
Increased revenue	Revenue collection per audit	Average collection per firm using Automated Audit Tools AATs (in pesos).	2,500,000	4,300,000
Output Level				
Decreased time to complete an audit	Time to complete an audit	Calendar days from start of audit to completion.	117	44
Increased percentage of audits using AATS.	Percentage of audit cases performed using AATS.	Large taxpayer unit audit cases performed using only AATS.	2.9%	100%
Reduced opportunities for discretion	Time spent at taxpayer premises per audit.	Hours to perform all audit functions needed at taxpayer premises.	335	50
Public Awareness Campaign sub-Activity				
Outcome Level				
Increased revenue	Revenue from target group	Target group to be defined based on project type.	TBD	TBD
Increased satisfaction	Taxpayer satisfaction with BIR services.	Improvement in customer satisfaction survey scores.	TBD	TBD

TABLE 3—M&E INDICATORS FOR REVENUE ADMINISTRATION REFORM PROJECT—Continued

Result	Indicator	Definition of indicator	Baseline	Year 5
Increased awareness	Perception of change based on specific message.	Awareness of the campaign, the available BIR services and/or taxpayer obligations.	TBD	TBD
RIPS Activity				
Outcome Level				
Increased number of resolved cases	Number of "successful" case resolutions (cumulative).	Number of personnel charged by RIPS who are then suspended, dismissed or convicted.	28	140
Corruption perceptions	Perceptions of corrupt activities within DOF agencies.	Perceptions among DOF staff and the general public.	TBD	TBD
Output Level				
Increased number of investigations	Number of complaints investigated (cumulative).	Number of cases opened	110	400
Decreased time to complete an investigation.	Time taken to complete investigation (average).	Days from case opened to resolution	120	60
Increased number of DOF personnel charged.	Personnel charged (cumulative)	Number of DOF personnel charged with either graft or corruption.	67	500

Note: Many of these indicators are in draft form as the development of a full set of indicators, baselines and targets is proposed as part of the eTIS sub-Activity and the Public Awareness Campaign sub-Activity. For indicators of perceptions of corruption, a baseline survey will be developed and conducted as soon as possible and the indicators and corresponding targets will be developed for relevant sub-Activities at that time.

(b) Data Collection and Reporting. The M&E Plan will establish guidelines for data collection and reporting, and identify the responsible parties. Compliance with data collection and reporting timelines will be conditions for Disbursements for the relevant Activities as set forth in the Program Implementation Agreement. The M&E Plan will specify the data collection methodologies, procedures, and analysis required for reporting on results at all levels. The M&E Plan will describe any interim MCC approvals for data collection, analysis, and reporting plans.

(c) Data Quality Reviews. As determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan will be reviewed to ensure that data reported are as valid, reliable, and timely as resources will allow. The objective of any data quality review will be to verify the quality and the consistency of performance data across different implementation units and reporting institutions. Such data quality reviews also will serve to identify where those levels of quality are not possible, given the realities of data collection.

(d) Management Information System. The M&E Plan will describe the information system that will be used to collect data, store, process and deliver information to relevant stakeholders in such a way that the Program information collected and verified pursuant to the M&E Plan is at all times accessible and useful to those who wish to use it. The system development will take into consideration the requirement and data needs of the components of the Program, and will be aligned with existing MCC systems, other service providers, and relevant Implementing Entities.

(e) Role of MCA-Philippines. The monitoring and evaluation of this Compact spans discrete Projects and will involve a variety of governmental, non-governmental, and private sector institutions. Subject to Section 3.2(b) of the Compact, MCA-Philippines is responsible for implementation of the M&E Plan. MCA-Philippines will oversee all Compact-related monitoring and evaluation activities conducted for each of the Projects, ensuring that data from all implementing entities is consistent, accurately reported and aggregated into regular Compact performance reports as described in the M&E Plan.

4. Evaluation Component

The evaluation component of the M&E Plan will contain three types of evaluations: (a) Impact evaluations; (b) final evaluations; and (c) special studies. The evaluation component of the M&E Plan will describe the purpose of the evaluation, methodology, timeline, required MCC approvals, and the process for collection and analysis of data for each evaluation. The results of all evaluations will be made publicly available in accordance with MCC's guidelines for monitoring and evaluation plans posted from time to time on the MCC Web site (the "*MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs*").

(a) Impact Evaluation. The M&E Plan will include a description of the methods to be used for impact evaluations and plans for integrating the evaluation method into Project design. Based on in-country consultation with stakeholders, the strategies outlined below were jointly determined as having the strongest potential for rigorous impact evaluation. The M&E Plan will further outline in detail these methodologies. Final impact evaluation strategies are to be included in the M&E Plan. The following is a summary of the current impact evaluation methodology:

(i) KALAHI–CIDSS Project.

The planned impact evaluation will cover new municipalities across both MCC-supported and World Bank-supported areas. Although the final design and implementation of the impact evaluation will be contracted to an independent consultant firm, a joint advisory board, with members from MCC, MCA-Philippines, the World Bank, DSWD, the National Economic Development Agency, and local academics will oversee the impact evaluation, which will be made publically available upon completion.

MCC and the World Bank cannot provide sufficient funding for all eligible municipalities. Thus the proposed approach will randomly select some pairs of municipalities to serve as treatment and controls from the eligible list. The specific municipalities will be randomly selected

[8] These indicators are defined as the actual cost or spending minus what they were estimated to be in the without project scenario, as calculated by the model of the feasibility study.

[9] These indicators are defined as the actual cost or spending minus what they were estimated to be in the without project scenario, as calculated by the Highway Development and Management 4 model used by the feasibility study. These indicators will not be measured directly in year 5 of the Compact. Instead they will be recalculated using the same model, based on actual data on traffic, roughness, and maintenance spending (see below).

[10] This baseline is a visual estimation, not an International Roughness Index measure.

[11] These indicators are defined as the actual cost or spending minus what they were estimated to be in the without project scenario, as calculated by the model of the feasibility study.

[12] There have been several calculations of the VAT tax gap in the last 15 years and these have produced a wide range of estimates depending on the methodology employed. We are aware of no more recent estimate by the IMF than 1999, when it was estimated at 50%. The IMF will be responsible for producing a more current baseline figure for the tax gap indicator.

from that list by an independent party. Several of the Government's obligations are related to the methodology and implementation of this Impact Evaluation.

Key Impact Evaluation questions will include: How does receiving KALAHI–CIDSS support (from either the KALAHI–CIDSS Project or KC1) influence individual and community measures of:

(1) Social capital (participation in meetings, membership in groups, trust, etc);

(2) Welfare (consumption expenditure, labor force participation (including for women), hours on household production, enrollment, etc.); and

(3) The link between social capital and welfare (operations and maintenance practices, sustainability, project costs, congruence of preferences with sub-projects selected, etc.).

(ii) Secondary National Roads Development Project.

A rigorous impact evaluation is not currently planned for the Secondary National Roads Development Project due to the lengthy time of construction and the corresponding time required for the economy to adapt to the improvement.

(b) Final Evaluation. The M&E Plan will make provision for final Project level evaluations ("*Final Evaluations*"). With the prior written approval of MCC, MCA-Philippines will engage independent evaluators to conduct the Final Evaluations at the end of each Project. The Final Evaluations will review progress during Compact implementation and provide a qualitative context for interpreting monitoring data and impact evaluation findings. They must at a minimum (i) evaluate the efficiency and effectiveness of the Activities, (ii) determine if and analyze the reasons why the Compact Goal, Program Objective and Project Objective(s), outcome(s) and output(s) were or were not achieved, (iii) identify positive and negative unintended results of the Program, (iv) provide lessons learned that may be applied to similar projects, and (v) assess the likelihood that results will be sustained over time.

(c) Special Studies. The M&E Plan will include a description of the methods to be used for special studies, as necessary, funded through this Compact or by MCC. Plans for conducting the special studies will be determined jointly between MCA-Philippines and MCC before the approval of the M&E Plan. The M&E Plan will identify and make provision for any other special studies, ad hoc evaluations, and research that may be needed as part of the monitoring and evaluating of this Compact. Either MCC or MCA-Philippines may request special studies or ad hoc evaluations of Projects, Activities, or the Program as a whole prior to the expiration of the Compact Term. When MCA-Philippines engages an evaluator, the engagement will be subject to the prior written approval of MCC. Contract terms must ensure non-biased results and the publication of results.

As of the date hereof, two special studies are planned: For the KALAHI–CIDSS Project, an evaluation is planned to measure the various benefits of the sub-projects; for the Secondary National Roads Development Project, evaluations are planned to focus on measuring changes in travel times and transportation costs.

(i) Request for Ad Hoc Evaluation or Special Study. If MCA-Philippines requires an ad hoc independent evaluation or special study at the request of the Government for any reason, including for the purpose of contesting an MCC determination with respect to a Project or Activity or to seek funding from other donors, no MCC Funding or MCA-Philippines resources may be applied to such evaluation or special study without MCC's prior written approval.

5. Other Components of the M&E Plan

In addition to the monitoring and evaluation components, the M&E Plan will include the following components for the Program, Projects and Activities, including, where appropriate, roles and responsibilities of the relevant parties and providers:

(a) Costs. A detailed cost estimate for all components of the M&E Plan; and

(b) Assumptions and Risks. Any assumption or risk external to the Program that underlies the accomplishment of the Program Objective, Project Objectives and Activity outcomes and outputs. However, such assumptions and risks will not excuse any Party's performance unless otherwise expressly agreed to in writing by the Parties.

6. Approval and Implementation of the M&E Plan

The approval and implementation of the M&E Plan, as amended from time to time, will be in accordance with the Program Implementation Agreement and any other relevant supplemental agreement, and the MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs.

Annex IV Conditions to Disbursement of Compact Implementation Funding

This Annex IV sets forth the conditions precedent applicable to Disbursements of Compact Implementation Funding (each a "*CIF Disbursement*"). Capitalized terms used in this Annex IV and not defined in this Annex IV or in the Compact have the meanings assigned to such terms in the Program Implementation Agreement.

1. Conditions to the Initial CIF Disbursement

Each of the following conditions precedent must have been met to MCC's satisfaction prior to the initial CIF Disbursement:

(a) MCA-Philippines will have delivered to MCC a complete, correct, and fully executed Disbursement Request for the relevant Disbursement Period, in form and substance satisfactory to MCC and submitted in accordance with the Reporting Guidelines. Each Disbursement Request will include the following reference number: GR10PHL10010.

(b)(i) Each Activity being funded by such CIF Disbursement will facilitate implementation of the Compact, (ii) there has been no violation of, and the use of the requested funds for the purposes requested will not violate, the limitations on the use or treatment of (1) MCC Funding, as set forth in this Compact, including under Section 2.7, or (2) Compact Implementation Funding, and (iii) no material breach of any covenant, obligation, or responsibility of the Government or MCA-Philippines under this Compact, the Program Implementation Agreement, any supplemental agreement, or any Program Guidelines has occurred or is continuing.

(c) The Government will have published the Establishment Decree, and such decree will remain in full force and effect, without modification, alteration, rescission, or suspension of any kind unless otherwise agreed by MCC. Without limitation of the foregoing, MCA-Philippines will have delivered to MCC (i) evidence of the adoption and publication of the Establishment Decree, and (ii) an up-to-date extract from the state registry verifying that MCA-Philippines is a fully-formed and registered public institution under the laws of the Philippines.

(d) MCA-Philippines will be sufficiently mobilized in order for MCA-Philippines to be able to fully perform its obligations and to act on behalf of the Government.

(e) MCA-Philippines will have adopted a Procurement Plan, in form and substance satisfactory to MCC, with respect to the Compact Implementation Funding, and such Procurement Plan remains in full force and effect.

(f) MCA-Philippines will have adopted a Fiscal Accountability Plan, in form and substance satisfactory to MCC, and such Fiscal Accountability Plan remains in full force and effect.

(g) The Government will have adopted and published such decrees and regulations as necessary to implement the tax assumption mechanisms set forth in the Program Implementation Agreement, and such decrees and regulations will remain in full force and effect without modification, alteration, rescission, or suspension of any kind, unless otherwise agreed by MCC.

(h) The Fiscal Agent will have been duly appointed, and MCA-Philippines will have duly executed the Fiscal Agent Agreement, and such agreement will be in full force and effect without modification, alteration, rescission, or suspension of any kind, unless otherwise agreed by MCC, and no material breach has occurred or is continuing thereunder.

(i) The Procurement Agent will have been duly appointed, and MCA-Philippines will have duly executed an agreement with the Procurement Agent, and such agreement will be in full force and effect without modification, alteration, rescission, or suspension of any kind, unless otherwise agreed by MCC, and no material breach has occurred or is continuing thereunder.

(j) The Bank will have been duly appointed, and MCA-Philippines and the Fiscal Agent will have duly executed the Bank Agreement, and such agreement will be in full force and effect without modification, alteration, rescission, or suspension of any kind, unless otherwise agreed by MCC, and no material breach has occurred or is continuing thereunder.

(k) The Permitted Account will be established.

(l) Prior to the deployment of the resident tax administration technical assistance lead advisor, the IMF resident advisor will be designated as a senior advisor to the head of the BIR's Project Implementation & Monitoring Office. Said resident advisor will coordinate all tax administration-related technical assistance from all donors.

2. Conditions to Each CIF Disbursement

Each of the following conditions precedent must have been met to MCC's satisfaction prior to the applicable CIF Disbursement:

(a) MCA-Philippines will have delivered to MCC a complete, correct, and fully executed Disbursement Request for the relevant Disbursement Period, together with any applicable Periodic Reports covering such Disbursement Period, in each case in form and substance satisfactory to MCC and submitted in accordance with the Reporting Guidelines. Each Disbursement Request will include the following reference number: GR10PHL10010.

(b)(i) Each Activity being funded by such CIF Disbursement will facilitate implementation of the Compact, (ii) there has been no violation of, and the use of the requested funds for the purposes requested will not violate, the limitations on the use or treatment of (1) MCC Funding, as set forth in this Compact, including under Section 2.7, or (2) Compact Implementation Funding, (iii) no material breach of any covenant, obligation, or responsibility of the Government or MCA-Philippines under this Compact, the Program Implementation Agreement, any supplemental agreement, or any Program Guidelines has occurred or is continuing, and (iv) any Taxes and Contributions paid with MCC Funding prior to or on the date ninety (90) days prior to the start of the applicable Disbursement Period have been assumed by the Government in full in accordance with this Compact.

(c) The MCA-Philippines Procurement Plan will be in full force and effect.

(d) The MCA-Philippines Fiscal Accountability Plan will be in full force and effect.

(e) Each of the Fiscal Agent Agreement, the MCA-Philippines agreement with the Procurement Agent, and the Bank Agreement will be in full force and effect without modification, alteration, rescission, or suspension of any kind, unless otherwise agreed by MCC, and no material breach has occurred or is continuing thereunder.

(f) The Permitted Account will be in existence.

(g) The tax assumption mechanism set forth in the Program Implementation Agreement will be in full force and effect.

Annex V Definitions

Activity has the meaning provided in Part B of Annex I.

Additional Representative has the meaning provided in Section 4.2.

Audit Guidelines has the meaning provided in Section 3.8(a).

Baseline has the meaning provided in paragraph 3 of Annex III.

BIR has the meaning provided in paragraph 3(a) of Part B of Annex I.

Board of Trustees has the meaning provided in paragraph 4(c)(i)(1) of Part B of Annex I.

CIF Disbursement has the meaning provided in Annex IV.

Compact has the meaning provided in the Preamble.

Compact Goal has the meaning provided in Section 1.1.

Compact Implementation Funding has the meaning provided in Section 2.2(a).

Compact Records has the meaning provided in Section 3.7(a).

Compact Term has the meaning provided in Section 7.3.

Covered Provider has the meaning provided in Section 3.7(c).

Disbursement has the meaning provided in Section 2.4.

DSWD has the meaning provided in Section 8.1(a)(i).

Establishment Decree has the meaning provided in Section 3.2(b).

eTIS has the meaning provided in paragraph 3(b) of Part B of Annex I.

Evaluation Component has the meaning provided in paragraph 1 of Annex III.

Excess CIF Amount has the meaning provided in Section 2.2(d).

Final Evaluations has the meaning provided in paragraph 4(b) of Annex III.

Fiscal Agent has the meaning provided in paragraph 4(e) of Part B of Annex I.

Governance Guidelines has the meaning provided in paragraph 4(c) of Part B of Annex I.

Government has the meaning provided in the Preamble.

IMF has the meaning provided in paragraph 3(b)(i)(1) of Part B of Annex I.

Implementation Letter has the meaning provided in Section 3.5.

Implementing Entity has the meaning provided paragraph 4(d) of Part B of Annex I.

Implementing Entity Agreement has the meaning provided in paragraph 4(d) of Part B of Annex I.

Indicators has the meaning provided in paragraph 3(a) of Annex III.

Inspector General has the meaning provided in Section 3.8(a).

KALAHI–CIDSS has the meaning provided in paragraph 1(a) of Part B of Annex I.

KALAHI–CIDSS Project has the meaning provided in paragraph 1(a) of Part B of Annex I.

KC1 has the meaning provided in paragraph 1(a) of Part B of Annex I.

M&E Annex has the meaning provided in Annex III.

M&E Plan has the meaning provided in Annex III.

Management Unit has the meaning provided in paragraph 4(c)(iii)(1) of Part B of Annex I.

MCA Act has the meaning provided in Section 2.2(a).

MCA-Philippines has the meaning provided in Section 3.2(b).

MCA-Philippines Bylaws has the meaning provided in paragraph 4(c) of Part B of Annex I.

MCC has the meaning provided in the Preamble.

MCC Environmental Guidelines has the meaning provided in Section 2.7(c).

MCC Funding has the meaning provided in Section 2.3.

MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs has the meaning provided for in paragraph 4 of Annex III.

MCC Program Procurement Guidelines has the meaning provided in Section 3.6.

MCC Web site has the meaning provided in Section 2.7.

Monitoring Component has the meaning provided in paragraph 1 of Annex III.

Multi-Year Financial Plan Summary has the meaning provided in paragraph 1 of Annex II.

OP 4.12 has the meaning provided in paragraph 3 of Part A of Annex I.

Party and *Parties* has the meaning provided in the Preamble.

Permitted Account has the meaning provided in Section 2.4.

The *Philippines* has the meaning provided in the Preamble.

Principal Representative has the meaning provided in Section 4.2.

Procurement Agent has the meaning provided in paragraph 4(f) of Part B of Annex I.

Program has the meaning provided in the Preamble.

Program Assets include MCC Funding, interest accrued thereon, and any assets, goods or property (real, tangible or intangible) purchased or financed in whole or in part (directly or indirectly) by MCC Funding.

Program Funding has the meaning provided in Section 2.1.

Program Guidelines means collectively the Audit Guidelines, the MCC Environmental Guidelines, the Governance Guidelines, the MCC Program Procurement Guidelines, the Reporting Guidelines, the MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs, and any other guidelines, policies or guidance papers from time to time published on the MCC Web site.

Program Implementation Agreement or *PIA* has the meaning provided in Section 3.1.

Program Objective has the meaning provided in Section 1.2.

Project(s) has the meaning provided in Section 6.2(b).

Project Objective(s) has the meaning provided in Section 1.3.

Provider has the meaning provided in Section 3.7(c).

Reporting Guidelines means the MCC "Guidance on Quarterly MCA Disbursement Request and Reporting Package" posted by MCC on the MCC Web site or otherwise publicly made available.

Revenue Administration Reform Project has the meaning provided in paragraph 3(b) of Part B of Annex I.

RIPS has the meaning provided in paragraph 3(b) of Part B of Annex I.

Secondary National Roads Development Project has the meaning provided in paragraph 2(b) of Part B of Annex I.

Stakeholders' Committee has the meaning provided in paragraph 4(c)(ii)(1) of Part B of Annex I.

Target has the meaning provided in paragraph 3(a) of Annex III.

Taxes and Contributions has the meaning provided in Section 2.8.

United States Dollars or *US$* means the lawful currency of the United States of America.

USAID has the meaning provided in paragraph 1(e) of Part B of Annex I.

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MILLENNIUM CHALLENGE CORPORATION

[MCC FR 10–12]

Report on the Selection of Eligible Countries for Fiscal Year 2011

AGENCY: Millennium Challenge Corporation.

ACTION: Notice.

SUMMARY: This report is provided in accordance with section 608(d)(1) of the Millennium Challenge Act of 2003, Public Law 108–199, Division D, (the "Act"), 22 U.S.C. 7708(d)(1).

Dated: September 28, 2010.

Melvin F. Williams, Jr.,

VP/General Counsel and Corporate Secretary, Millennium Challenge Corporation.

Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance for Fiscal Year 2011

This report to Congress is provided in accordance with section 608(b) of the Millennium Challenge Act of 2003, as amended, 22 U.S.C. 7707(b) (the "Act").

The Act authorizes the provision of Millennium Challenge Account (MCA) assistance to countries that enter into a Millennium Challenge Compact with the United States to support policies and programs that advance the prospects of such countries achieving lasting economic growth and poverty reduction. The Act requires the Millennium Challenge Corporation (MCC) to take a number of steps in determining what countries will be selected as eligible for MCA compact assistance for fiscal year 2011 (FY11) based on the countries' demonstrated commitment to just and democratic governance, economic freedom, and investing in their people, as well as MCC's opportunity to reduce poverty and generate economic growth in the country. These steps include the submission of reports to the congressional committees specified in the Act and publication of notices in the **Federal Register** that identify:

The countries that are "candidate countries" for MCA assistance for FY11 based on their per capita income levels and their eligibility to receive assistance under U.S. law. This report also identifies countries that would be candidate countries but for specified legal prohibitions on assistance (section 608(a) of the Act; 22 U.S.C. 7707(a));

The criteria and methodology that MCC's Board of Directors (Board) will use to measure and evaluate the policy performance of the candidate countries consistent with the requirements of section 607 of the Act (22 U.S.C. 7706) in order to determine "MCA eligible countries" from among the "candidate countries" (section 608(b) of the Act); and

The list of countries determined by the Board to be "MCA eligible countries" for FY11, with justification for eligibility determination and selection for compact negotiation, including with which of the MCA eligible countries the Board will seek to enter into MCA compacts (section 608(d) of the Act).

This report is the second of the three required reports listed above.

Criteria and Methodology for FY11

The Board will base its selection of eligible countries on several factors including:

The country's overall performance in three broad policy categories—Ruling Justly, Encouraging Economic Freedom, and Investing in People; MCC's opportunity to reduce poverty and generate economic growth in a country; and Availability of funds to MCC.

Performance of Policy Categories

Section 607 of the Act requires that the Board's determination of eligibility be based "to the maximum extent possible, upon objective and quantifiable indicators of a country's demonstrated commitment" to the criteria set out in the Act. For FY11, there will be two groups of candidate countries—low income countries (LIC) and lower middle income countries (LMIC). As outlined in MCC's *Report on Countries that are Candidate Countries for Millennium Challenge Account Eligibility for Fiscal Year 2011 and Countries that would be Candidates but or Legal Prohibitions* (August 2010), LIC candidates are those countries that have a per capita income equal to or less than $1,905 and are not ineligible to receive United States economic assistance under part I of the Foreign Assistance Act of 1961 by reason of the application of any provision of the Foreign Assistant Act or any other provision of law. LMIC candidates are those countries that have a per capita income between $1,906 and $3,945 and are not ineligible to receive United States economic assistance under the same stipulations.

The Board uses seventeen indicators to assess the policy performance of individual countries (specific definitions of the indicators and their sources are set out in the attached Annex A). These indicators are grouped for purposes of the FY11 assessment methodology under the three policy categories listed below.

Ruling Justly

Civil Liberties
Political Rights
Voice and Accountability
Government Effectiveness
Rule of Law
Control of Corruption

Encouraging Economic Freedom

Inflation
Fiscal Policy
Business Start-up
Trade Policy
Regulatory Quality
Land Rights Access

Investing in People

Public Expenditure on Health
Public Expenditure on Primary Education
Immunization Rates
Girls' Primary Education Completion
Natural Resource Management

In making its determination of eligibility with respect to a particular candidate country, the Board will consider whether a country performs above the median in relation to its income level peers (LIC or LMIC) on at least three of the indicators in each of the *Ruling Justly, Encouraging Economic Freedom,* and *Investing in People* categories, and above the median on the *Control of Corruption* indicator. One exception to this methodology is that the median is not used for the *Inflation* indicator. Instead, to pass the *Inflation* indicator a country's inflation rate must be under a fixed ceiling of 15 percent. The Board may also take into consideration whether a country performs substantially below the median on any indicator (*i.e.,* below the 25th percentile) and has not taken appropriate measures to address this shortcoming.

Approach to Income Classification Transition

Each year a number of countries shift income groups, and some countries formerly classified as LICs suddenly face new, higher performance standards in the LMIC group. As a result, they typically perform relatively worse as an LMIC, even if they performed relatively well as an LIC, and maintained or improved performance over the previous year in absolute terms. To address the challenges associated with sudden changes in performance standards for these countries, MCC has adopted an approach to income category