



Request for Information for Philippines Compact Development

1. INTRODUCTION

The Millennium Challenge Corporation (“MCC”) is a U.S. Government agency created in 2004 to administer the Millennium Challenge Account. Its mission is to reduce poverty through the promotion of sustainable economic growth. It is based on the principle that foreign aid is most effective when it reinforces good governance, economic freedom, and investments in people. To be eligible to receive assistance, a country must demonstrate above-median performance on independent and transparent policy indicators. After MCC selects an eligible country, the country presents proposals to MCC for projects to be funded through a “compact” grant (“*Compact*”). Since 2004, MCC has signed Compacts with eighteen partner countries ranging from \$66 million to \$698 million.

To design the Compact proposals, eligible countries conduct analysis and consultations on key constraints and opportunities for economic growth. As a part of this process, eligible countries conduct a broad, participatory and timely consultative process with civil society and the private sector. A priority is to stimulate private sector-led growth that will continue to reduce poverty, create employment, motivate innovation, and stimulate trade and investment long after the Compact is complete.

In March 2008, the Republic of the Philippines was named eligible for Compact funding. The Government of the Republic of the Philippines (“GRP”) then appointed a team (“MCA-Philippines”) in the Department of Finance to develop a Compact proposal with MCC. MCA-Philippines has completed its initial economic analysis and launched its consultative process. In December 2008, MCA-Philippines presented a proposal including six projects to MCC for potential Compact funding. This Request for Information (“RFI”) aims to solicit feedback from the private sector on the five proposed projects that are entering the due diligence phase.

2. OBJECTIVES

This solicitation has the following objectives:

- a. Sharing best practices and private sector experiences on similar projects from other countries;
- b. Generate opportunities for leverage of Compact funds with private sector financing, trade, and investment; and

- c. Solicit information about opportunities and challenges facing businesses in the sectors which have been identified for possible Compact projects.

3. PHILIPPINES COMPACT DEVELOPMENT

The Philippines was named eligible for a Compact in March 2008. Upon eligibility, MCA-Philippines began the process of preparing a Compact proposal. It used an Asian Development Bank report titled “Philippines: Critical Development Constraints” to identify economic constraints for its Compact to address (available at <http://www.adb.org/documents/books/philippines-critical-dev-constraints/critical-dev-constraints.pdf>). The obstacles to economic growth that this report identified include:

1. Limited fiscal resources available to the GRP;
2. Inadequate infrastructure, particularly in electricity and transport;
3. Weak investor confidence due to governance concerns, in particular, corruption and political instability; and
4. Inability to address market failures leading to a small and narrow industrial base.

MCA-Philippines launched the consultative process based upon the obstacles set forth in this report, discussing its findings with representatives from key agencies of the GRP, academic and research institutions, and the private sector. The consultative process continued through stakeholder sessions in August and September 2008 with civil society organizations, academia, and the private sector. In addition, MCA-Philippines participated in a December 2008 private sector dialogue session in Washington, DC. MCC and MCA-Philippines see the consultative process as a continuous feedback channel for Philippines Compact development.

The economic constraints analysis and initial consultative process have helped narrow down a list of fifteen initial Compact projects. In December 2008, MCA-Philippines proposed six Compact projects to MCC; the following five potential Compact projects are entering a due diligence phase in Compact development. These five project proposals are posted publicly in full detail at <http://www.mcap.ph/proposed-projects.html>.

- a. Secondary National Roads Development (US\$191 million): Implemented by the Philippines Department of Public Works and Highways (DPWH), this proposed project aims to improve the connections among the Philippines’ fragmented economies through adequate and reliable transport networks. From the large number of road sections that need to be improved and rehabilitated in the entire country, six priority secondary road sections totaling 309.5 kilometers, all located in the northern and central islands of the Philippines, are proposed for Compact-funded rehabilitation and/or upgrade to concrete.

The DPWH’s Bureau of Maintenance will be tasked with maintaining these roads following rehabilitation. One form of maintenance to be used, Long-

Term Performance-Based Maintenance, is a new concept for contracting with the private sector designed to increase the efficiency and effectiveness of road maintenance operation. This type of contract normally covers several years and has been implemented successfully in numerous countries, as detailed at <http://www.worldbank.org/transport/roads/resource-guide/index.html>.

- b. Empowerment and Development Project for Poor Communities: Kapit-Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services or “KALAHI-CIDSS” 2 (US\$140 million): Implemented by the Philippines Department of Social Work and Development (DSWD), this proposed project would scale-up an existing World Bank project that is in its final two years of implementation. Proposals would be invited from approximately 200 municipalities for grants that involve a cost-sharing arrangement between the national government and local government units (LGUs). The intent is to assist LGUs to increase access to basic education, health and nutrition, shelter, potable water, sanitation, electricity, and other needs. Compact funding is also proposed for the municipalities’ capacity building and governance needs. Prior to completion of these grant projects, operation and maintenance citizen groups will be formed and trained on basic technical operation and financial management of the completed projects.
- c. Conditional Cash Transfer (CCT) Philippines: Improving the Human Capital of the Poor – “Pantawid Pamilyang Pilipino Program” or “4Ps” (US\$227 million): Implemented by DSWD, 4Ps is a poverty reduction strategy that provides cash grants to extremely poor households to allow the members of the families to meet certain human development goals. Recipients must comply with some requirements, such as regular school attendance and availing of recommended child and maternal health care services. The focus is on increasing the human capital of poorest families (health/nutrition and education) based on findings that low schooling, ill health and high malnutrition are strongly associated with the poverty cycle in the Philippines. Compact funding would be used for (a) 4Ps cash grants to 172,488 poor households; (b) capability building for local implementers; (c) community building activities; and (d) community grants for health and education.
- d. Sustainable Upland Watershed Management and Productivity Enhancement through Small Water Impounding Projects or “SWIP” (US\$43 million): Implemented by the Philippines Department of Agriculture, this project would create synergies between agricultural productivity improvement and environmental resource sustainability by promoting efficient and relatively cost-effective water impounding technologies. The Compact would fund (a) 170 small water impounding projects (mostly, dams) in strategic upland areas in 41 provinces; (b) utilization of impounded rainwater in the SWIPs for 13,000 hectares in rain-fed upland agricultural areas; (c) training of 9,000 farmers in basic leadership, technical skills, and agricultural production; (d) development of 500 hectares of a surface water reservoir for inland fishery production; and (e) development of 3,400 hectares of watershed area for agro-forestry. The Philippines’ Small Water Impounding System Associations

(SWISAs), which are organized by small farmers, will operate and maintain each SWIP using irrigation fees paid each season.

- e. Integrated Revenue Information System (IRIS) for Sustained Fiscal Governance Program (US\$148 million): Implemented by the Philippines Department of Finance, this proposed project's strategy consists of mobilizing information technology resources and undertaking procedural reforms to deal with the core problem of information asymmetry afflicting both fiscal management and tax administration. Among other activities detailed in the public project proposal, the Compact would fund an upgrade to the Financial Information Management System, simplification of Philippines Bureau of Internal Revenue tax forms, and a Citizen-Centric Service System to simplify Philippines Bureau of Internal Revenue and Bureau of Customs transactions.

4. REQUESTED INFORMATION

This solicitation is focused on the five projects listed above. Where possible, respondents are encouraged to provide information based on experience in the country. Experiences from other countries may also be applicable. MCA-Philippines may use information provided by the private sector to structure projects for Compact funding.

a. Sharing best practices and private sector experiences on similar projects from other countries.

- Are there similar projects in other countries that might provide a model for these Compact projects? For example, perhaps there is a successful fiscal governance program in another country that could be replicated in the Philippines.
- Based on your experience in other countries, how could these projects best increase your company's business in the Philippines?

b. Generate opportunities for leverage of Compact funds with private sector financing, trade, and investment.

- What kinds of Compact design would incite parallel trade/business by the private sector? For example, how could demand-side Compact investments in the 4Ps project leverage supply-side private investments in health and education and/or accreditation of existing private health clinics? What design for the proposed SWIP project could best lead to long-term supply contracts with farmers?
- What types of design would enable Public-Private Partnerships in these Compact projects in construction and/or maintenance? For example, private sector input is invited on design of the long-term performance-based maintenance contracts envisioned for the Secondary National Roads Development project.

c. Solicit information about opportunities and challenges facing businesses in the sectors which have been identified for possible Compact projects.

- Are there opportunities for the Compact projects to benefit from new approaches or technologies, such as Information Technology applications for the Enhancing Fiscal Governance project?
- What could be done to strengthen the business and policy environment for maximum impact by the Compact project proposals?

5. SCHEDULE AND SUBMISSION INSTRUCTIONS

Though MCC and MCA-Philippines encourage private sector feedback throughout the Compact development process, for purposes of this solicitation, information should be emailed to mcap09@mcap.ph and to psi@mcc.gov by 5:00 PM EST on Tuesday, March 31st. Submissions are for the benefit of MCA-Philippines as it continues to develop its Compact. As such, neither MCC nor MCA-Philippines will be able to respond to most submissions. Respondents are encouraged to keep their responses to no more than 15 pages using Microsoft Word for text, Microsoft Excel for data tables, Microsoft PowerPoint for presentations, and JPG for any digital photos.