



## CONGRESSIONAL NOTIFICATION

Pursuant to section 7057(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009 (Pub. L. 111-8, Division H), and section 610(a) of the Millennium Challenge Act of 2003, as amended, this notification is (1) to advise you that the Millennium Challenge Corporation (“MCC”) intends to start negotiations with the Republic of Moldova for a Millennium Challenge Compact and (2) to initiate the 15-day consultation period before the start of negotiations. Members of MCC’s staff are available to meet with you to discuss the planned negotiations.

If you or your staff would like to arrange a meeting, please contact Ellona Fritschie or me at (202) 521-3850.

This notification is being sent to the Congress on September 22, 2009, and negotiations with the Republic of Moldova may be started on or after October 6, 2009.

Sincerely,

James Mazarella  
Vice President (Acting)  
Congressional and Public Affairs

## SUPPLEMENTAL INFORMATION

### MCC COMPACT DEVELOPMENT WITH THE REPUBLIC OF MOLDOVA

MCC anticipates entering into negotiations with the Government of the Republic of Moldova. After a lengthy compact development process, the estimated cost of worthy projects proposed by the government of Moldova (GoM) exceeded the available budget, requiring the GoM and MCC to select a subset of projects based on the results of detailed studies underway, available funds, estimated economic returns and beneficiary impact, costs, and implementation risks. Information in this memorandum is preliminary and therefore subject to verification and revision.

MCC first selected Moldova as eligible for MCC compact assistance in fiscal year 2007 and its current proposal is based on a proposal submitted to MCC in February 2008. The proposal was the result of analysis, drawing from economic data and feedback from civil society, government, other donors, and the private sector, that identified Moldova's weak business environment and the poor quality of roads, water, and power infrastructure as the key binding constraints to growth.

#### **Program Overview and Budget**

MCC assessed each of the projects included in the compact proposal, through internal peer reviews and consultations with the United States Agency for International Development (USAID), the U.S. Embassy in Moldova, and other donors. The preliminary assessment concluded that the proposed transport and agriculture investments, currently valued at \$262 million, had strong potential to spur economic growth and reduce poverty.

To ensure that these projects are ready for implementation, MCC and the GoM are investing substantial resources in project development, including technical and economic feasibility studies, environmental and social impact assessments, and the establishment of implementation structures. Advancing this work will enable Moldova to break ground more quickly, reduce the risk of cost escalations, and improve the speed and predictability of disbursements. These studies are nearing completion and will inform the final scope and costs of the compact proposal submitted for MCC management and Board approval.

The following table outlines estimated costs and benefits of the proposed program (by project) and administrative costs.

<b>Proposed Compact Components</b>	<b>Preliminary Cost Estimates</b> (millions of US\$)	<b>Preliminary Estimated Economic Rates of Return</b>	<b>Preliminary Estimated Number of Beneficiaries</b>
Transition to High Value Agriculture (THVA) Project	\$101.98	14.1%	124,000
Road Rehabilitation Project	\$132.84	21.1%	302,000

Administration: MCA-Moldova, Monitoring and Evaluation, Audit Services	\$27.14	N/A	N/A
<b>Proposed Compact Total</b>	<b>\$261.96</b>	<b>17.9%</b>	<b>N/A</b>

## **Road Rehabilitation Project**

### ***Project Rationale and Description***

The primary objectives of the proposed Road Rehabilitation Project are: (i) to increase the income of the local population through reduced cost of transport, and reduced costs of goods and services; (ii) to reduce losses to the national economy resulting from the deteriorated conditions of the roads; and (iii) to reduce the number of road accidents through improved traffic conditions.

MCC considered investment in five major road segments totaling 555 kilometers. MCC determined that the M-2 road which serves as part of the Chisinau-Kyiv land transport corridor for private, passenger, and commercial traffic, is the most promising for inclusion in the compact. Proposed interventions include 93 kilometers of reconstruction of pavement, resurfacing, repair of bridges and drainage structures, and repair or replacement of road safety features.

Rehabilitation of the M2 road will benefit the users and owners of motorized vehicles utilizing the road including local agricultural and other producers and buyers; providers and users of passenger transport services; and non-commercial owners of private motorized transport. Benefits will accrue to populations in both urban and, especially, rural areas where poverty is highest.

## **Transition to High Value Agriculture Project**

### ***Project Rationale and Description***

The primary objectives of the proposed Transition to High Value Agriculture (THVA) Project are to: (i) increase rural incomes by stimulating growth to high-value agriculture (HVA) production and marketing; (ii) devolve operations and maintenance of irrigation infrastructure from a central-planning era institution to water users; and (iii) catalyze future investment in HVA production by establishing a successful model and conducive institutional and policy environment for irrigated agriculture. Through rehabilitation of irrigation infrastructure, transfer of its operation and management to water user organizations (WUOs) that can provide greater reliability and sustainability of water services, and increased access to finance, training, and markets, farmers will be able to engage in more intensive and diversified agriculture, particularly in the high value fruits and vegetables sector. Agriculture, a mainstay of the rural population and especially the rural poor, suffers from low productivity and innovation, contributing to high rates of rural poverty.

The THVA Project is a set of four reinforcing and integrated activities that, when implemented together, will address what are recognized by both donors and domestic stakeholders to be the fundamental constraints to development of the sector. The activities are:

- ***Centralized Irrigation Systems (CIS) Rehabilitation:*** Rehabilitation of up to 11 large irrigation systems located on the Prut and Nistru Rivers, including primary, secondary, and tertiary systems, to provide reliable water needed for higher-value crops, as well as improved food security through enhanced grain production, over a command area of 15,535 hectares.
- ***Irrigation Sector Reform (ISR):*** Technical assistance and capacity building to: (i) support legal transfer of management and operations of MCC-rehabilitated systems from the state to WUOs; (ii) improve water resource management, including establishment of a modern water rights system; and (iii) ensure the legal and institutional framework needed for private and/or donor investment in the irrigation sector.
- ***Access to Agricultural Finance (AAF):*** Financing facilities and technical assistance to support HVA-related investments by farmers and rural entrepreneurs.
- ***Growing HVA Sales:*** Technical assistance to better access HVA markets and support the shift to HVA at the production and post-harvest level, to be undertaken jointly with, and administered by, USAID.

The central set of beneficiaries of the CIS Rehabilitation, ISR, and Growing HVA Sales activities will be households with owners or shareholders of farming enterprises, farmers or owners of land, and laborers employed in the operation of enterprise farms within the command areas where MCC will rehabilitate the irrigation systems. The beneficiaries of the AAF Activity will be a broader set of producers and intermediaries investing in and working in the HVA sector.

### **Partnership Strategy**

MCC has worked closely with established donors, including the World Bank and the United Nations Development Program, and the GoM in the development and planning of the proposed compact projects. The GoM is developing the Growing HVA Sales Activity together with USAID and MCC, with USAID proposed as the administrator. The U.S. Department of State and MCC cooperated extensively to evaluate GoM's proposal. MCC will continue collaborating with the road sector "Donor Group," comprised of the World Bank, the European Bank for Reconstruction and Development, and the European Investment Bank, to promote sufficient and sustainable levels of dedicated funding for road maintenance in Moldova.