

MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA

ACTING THROUGH

THE MILLENNIUM CHALLENGE CORPORATION

AND

THE REPUBLIC OF MOLDOVA

MILLENNIUM CHALLENGE COMPACT

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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 Moldova (“*Moldova*”), acting through its government (the “*Government*”).

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 Moldova 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 Moldova 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 Moldova (the “*Compact Goal*”).

Section 1.2 Program Objective. The objective of the Program is to increase incomes through increased agricultural productivity and expanded access to markets and services through improved roads (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 Transition to High Value Agriculture Project (as defined in Annex I) are to: (i) increase rural incomes by stimulating growth in irrigated high value agriculture; and (ii) catalyze future investments in high value agriculture by establishing a successful and sustainable model of irrigation system and water resource management and a conducive institutional and policy environment for irrigated agriculture.

(b) The objectives of the Road Rehabilitation Project (as defined in Annex I) are to: (i) increase incomes of the local population by reducing the cost of transport, goods and services; (ii) reduce losses to the national economy resulting from deteriorated road conditions; and (iii) reduce the number of road accidents through improved traffic conditions.

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 Two Hundred and Fifty-Four Million United States Dollars (US\$254,000,000) 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 Eight Million United States Dollars (US\$8,000,000) (“**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) financial management and procurement activities; and
- (ii) start-up activities, including staff salaries and administrative support expenses, such as office equipment, computers and other information technology or capital equipment; and other Compact implementation activities approved by MCC.

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

(b) In accordance with Section 7.5 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-Moldova 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 Moldova 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-Moldova and the MCC resident country mission.

(c) The Government will use its best efforts to 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.

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 website at www.mcc.gov (the “*MCC Website*”), 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 Website 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.

(a) Unless the Parties otherwise specifically agree in writing, and subject to the provisions of Sections 2.8(b) and 2.8(c), the Government will ensure that each of the following is free from the payment or imposition of any existing or future taxes, duties, levies, contributions, or other similar charges (“*Taxes*”) of or in Moldova (including any such Taxes imposed by a national, regional, local, or other governmental or taxing authority of or in Moldova) (i) the Program; (ii) MCC Funding; (iii) interest or earnings on MCC Funding; (iv) any Project or activity implemented under or in connection with the Program; (v) MCA-Moldova; (vi) goods and other property, works, services, technology, and other assets and activities, whether acquired, used or performed at any level or stage, under or in connection with the Program or any Project; (vii) persons and entities that provide such goods and other property, works, services, technology, and assets, or perform such activities; and (viii) income, profits, and payments with respect thereto. The Parties acknowledge and agree that “*Taxes*” include, among other things, value added and other transfer taxes (including exemption therefrom with credit), profit and income taxes, property and *ad valorem* taxes, import and export duties and taxes (including for goods imported and re-exported for personal use), withholding taxes, payroll taxes, social security and mandatory medical insurance contributions, road taxes and various applicable local taxes (such as, but not limited to, taxes on real estate property, taxes on territorial improvement, and taxes on placement of advertisements in public places).

(b) Without limiting the generality of the definition of Taxes as set forth in Section 2.8(a), the Parties hereby agree that the following taxes, duties, levies, contributions, and similar charges are specifically included in the definition of “*Taxes*” requiring exemptions in accordance with this Compact: (i) customs duties and associated fees; (ii) value added taxes (“*VAT*”); (iii) registration and stamp taxes; (iv) taxes on the corporate incomes of professional, accounting or consulting firms derived from Compact-related work; (v) taxes on the corporate income of

companies or other legal persons derived from Compact-related work; (vi) taxes on the personal income of individuals working under the Compact; (vii) taxes on temporary admissions of Compact-related goods and personal household goods; (viii) excise duties; (ix) customs procedure taxes; (x) road taxes; and (xi) real estate taxes and other local taxes. With respect to VAT and excise taxes on petroleum products, these will be addressed by way of a reimbursement, as set forth in Schedule E of Annex VI.

(c) Unless otherwise agreed by MCC in writing, set forth in Annex VI are procedures that the Government will implement to effectuate the exemption from Taxes required by Section 2.8(a) and Section 2.8(b) above with respect to each of the Taxes addressed therein. To the extent that there are Taxes not addressed in Annex VI, whether currently in force or established in the future, that MCC determines, in its sole discretion, are not being exempted by the Government in accordance with this Section 2.8, the Government hereby agrees that it will implement appropriate procedures (approved in writing by MCC) to ensure that such additional Taxes are exempted in accordance with this Section 2.8. For the avoidance of doubt, the identification (or lack of identification) of Taxes in Annex VI, or the description (or lack of description) of procedures to implement the required exemption from such Taxes in Annex VI, will in no way limit the scope of the tax exemption required by Section 2.8.

(d) Unless otherwise agreed in writing by the Parties, the exemption from Taxes set forth in Section 2.8(a) and 2.8(b) will not apply to income Taxes on, and contributions to, social insurance contributions and mandatory insurance charges for medical assistance, with respect to legal persons or natural persons who are nationals of Moldova, *provided that* such Taxes and contributions are not discriminatory and are generally applicable to all nationals in Moldova.

(e) In complying with the tax exemption obligations set forth herein, the Government will exempt MCA-Moldova, the Fiscal Agent, the Procurement Agent, and/or any other provider of goods, services, or works in connection with the Program from any obligation imposed by the laws of Moldova to withhold any Taxes from any payments made to any natural persons or legal persons working under the Program to the extent that such legal persons or natural persons are not nationals of Moldova.

(f) For the purposes of Section 2.8(d), Section 2.8(e) and Annex VI, the term “national” means natural persons who are citizens of Moldova or natural persons who hold a Moldovan permanent residence certificate and legal persons formed under the laws of Moldova (excluding (i) MCA-Moldova, and (ii) any foreign legal person, including any Moldovan-registered subsidiary, branch, representative office or other permanent establishment of a foreign legal person, with respect to income earned for providing services, goods or works in connection with this Compact); *provided that* in determining if a legal person has been formed under the laws of Moldova, the taxable status of such legal person will be based on its status at the time it is awarded or signs a Compact-related agreement or contract, and such initial determination will not change regardless of: (1) the type of agreement or contract used to employ or engage such company or other legal person; (2) any laws of Moldova that purport to change such status based on period of contract performance or period of time residing and/or working in Moldova; and/or (3) any requirement under the laws of Moldova that a company or other legal person must establish a branch office in Moldova, or otherwise register or organize itself under the laws of Moldova, in order to provide goods, services, or works in Moldova.

(g) The Government will from time to time sign and deliver, or cause to be signed and delivered, such other instructions, instruments or documents, and to take or cause to be taken such other actions as may be necessary or appropriate in the determination of MCC in order to implement this Section 2.8.

(h) If a Tax has been levied and paid contrary to the requirements of this Section 2.8, or any supplemental agreement entered into pursuant to this Section 2.8, the Government will refund promptly to MCC (or to another party as designated by MCC) the amount of such Tax in United States Dollars or the currency of Moldova within thirty (30) days (or such other period as may be agreed in writing by the Parties) after the Government is notified in writing (whether by MCC or MCA-Moldova) that such Tax has been paid.

(i) No MCC Funding, proceeds thereof, or Program Assets may be applied by the Government in satisfaction of its obligations under this Section 2.8.

(j) The mechanism for application of the tax exemption described in this Section 2.8 and Annex VI will be provided in a Government decision to be enacted after ratification of this Compact.

(k) Notwithstanding the provisions of this Section 2.8 and Annex VI, with respect to all funding associated with the Activities which USAID intends to administer, the treatment of Taxes, other fees and any other fiscal obligations to the Government will be in compliance with the terms and conditions as stipulated and agreed to in the “Agreement between the Government of the United States of America and the Government of Moldova Regarding Cooperation to Facilitate the Provision of Assistance,” which entered into force on March 21, 1994, as may be amended from time to time.

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 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-Moldova, an entity to be established through passage of a decree (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 “*MCA-Moldova*,” and will have the authority to bind the Government with regard to all Program Activities. The Establishment Decree will be in form and substance satisfactory to MCC. For

the avoidance of doubt, the designation of MCA-Moldova 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 Moldova 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 Website (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; and

(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.

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 Moldova. 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 States 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 Website. 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 issued by the United States Government Office of Management and Budget ("*OMB*"). 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.

To MCC:

Millennium Challenge Corporation
Attention: Vice President, Compact Implementation
(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
Email: VPImplementation@mcc.gov (Vice President, Compact Implementation)
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

State Chancellery
Attention: Minister of State
1, Piata Marii Adunari Nationale
Chisinau MD-2033
Republic of Moldova
Facsimile: (373) 22 242 696
Telephone: (373) 22 250 104
Email: victor.bodiu@gov.md

with a copy to MCA-Moldova:

Upon establishment of MCA-Moldova, MCA-Moldova will notify the Parties of its contact details.

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 State Minister of Moldova, and MCC will be represented by the individual holding the position of, or acting as, Vice President, Compact Implementation (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 Executive Director of MCA-Moldova 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.

Section 4.3 Signatures. With respect to all documents other than this Compact or an amendment to this Compact, a signature delivered by facsimile or electronic mail will be binding on the Party delivering such signature to the same extent as an original signature would be.

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 as a basis for suspension or termination (whether in writing to the Government or by posting on the MCC Website) 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 Moldova 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) Moldova 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 Moldova 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, 2.5, 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 formally amending this Compact, the Government hereby acknowledges and agrees that the Parties, may, through the Principal Representative, in the case of Moldova, or Principal Representative, or any Additional Representative, in the case of MCC, as the case may be, in writing, agree to modify any Annex to this Compact to (i) suspend, terminate, 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 among the Projects, the Project Activities, or any Activity under Program administration or monitoring and evaluation, or between a Project identified as of the signature of this Compact and a new project, (iii) modify the terms of Section B.3 of Annex I, or (iv) 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 Activity under Program administration or monitoring and evaluation.

(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 Parliamentary action, or satisfaction of any additional domestic requirements of Moldova.

Section 6.3 Inconsistencies. In the event of any conflict or inconsistency between:

(a) any Annex to this Compact and any of Articles 1 through 7, such Articles 1 through 7 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 Website. 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 Website will be deemed a reference to such document or information as updated or substituted on the MCC Website 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 Moldova 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 such agreements that are done as instruments to be signed by both Parties will be signed on the same page. 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 Domestic Requirements. Before this Compact enters into force, the Government will proceed in a timely manner to obtain ratification of this Compact by the Moldovan Parliament. The Parties understand that, upon its entry into force this Compact will prevail over the domestic laws of Moldova.

Section 7.2 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 Minister of Justice of Moldova (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 and the satisfaction of Section 7.1, which MCC may post on the MCC Website or otherwise make publicly available; and
- (c) MCC must determine that, after signature of this Compact, the Government has not engaged in any action or omission that is inconsistent with the eligibility criteria for MCC Funding.

Section 7.3 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 7.2 have been met.

Section 7.4 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 7.5 Provisional Application. Upon signature of this Compact and until this Compact has entered into force in accordance with Section 7.3, 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.

SIGNATURE PAGE FOLLOWS ON THE NEXT PAGE

IN WITNESS WHEREOF, the undersigned, duly authorized by their respective governments, have signed this Compact.

Done at Washington, DC, this 22nd day of January, 2010, in the English language only.

FOR MILLENNIUM CHALLENGE
CORPORATION, ON BEHALF OF THE
UNITED STATES OF AMERICA

FOR THE REPUBLIC OF MOLDOVA

/ s /

/ s /

Name: Daniel W. Yohannes
Title: Chief Executive Officer

Name: Iurie Leancă
Title: Deputy Prime Minister, Minister of
Foreign Affairs and European
Integration

ANNEX I

PROGRAM DESCRIPTION

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

A. PROGRAM OVERVIEW

1. Background and Consultative Process.

With a population of approximately 3.8 million inhabitants, Moldova was originally declared eligible for MCC Compact assistance in 2006. The Government mobilized a team of consultants to conduct an empirical analysis of the key constraints to growth. This constraints analysis served as the basis for two rounds of national consultations through regional town-hall meetings, as well as numerous meetings with smaller groups of stakeholders. Following these consultations, the Government submitted a Compact proposal in February 2008. In addition to the national consultations, project-specific consultations were conducted as part of the environmental and social impact assessment, both by the Government and by MCC-contracted entities. These public fora involved consultations with key stakeholders including: local government officials, regional and national staff from government agencies, civil society representatives, environmental and social non-governmental organizations, and interested local people to evaluate the proposed projects, to raise concerns, and to make recommendations on the design requirements to enhance benefits and reduce negative impacts from project implementation. These recommendations are to be incorporated into the detailed design to better address community needs. In addition, the Government and MCC worked with a consultative group of public and private sector representatives in the agricultural sector.

Agriculture has been the backbone of the Moldovan economy, with Moldova formerly serving as an important exporter of high value agriculture to the rest of the Soviet Union. Following the collapse of the Soviet Union, Moldova lost its position as a key exporter of fresh produce, and its extensive irrigation systems and post-harvest cold chain fell into disrepair.

Reforms necessary to attract private and donor investment in agriculture have been slow. As a result, Moldovan agriculture suffers from low productivity, contributing to high rates of rural poverty. However, with its fertile soils, relatively long growing season, and proximity to both European Union and former Soviet markets, Moldova has many of the necessary conditions to regain competitiveness in high value agriculture. The key constraints facing Moldovan producers are: lack of reliable water, lack of financing, lack of access to markets and technologies and lack of know-how. The Transition to High Value Agriculture Project will address these constraints.

The quality of the road network in Moldova is seriously deteriorated and has been cited repeatedly as a binding constraint to economic growth which impacts the entire country, as the country's economy is highly dependent on road transport. The Road Rehabilitation Project will address this constraint.

2. Program Objective.

The Program Objective is to increase incomes through increased agricultural productivity and expanded access to markets and services through improved roads. The Program consists of the Transition to High Value Agriculture Project and the Road Rehabilitation Project as further described in this Annex I.

3. Environmental and Social Safeguards.

The Transition to High Value Agriculture Project and the Road Rehabilitation Project will be implemented in compliance with the MCC Environmental Guidelines and MCC's environmental and social guidelines posted from time to time on the MCC Website or otherwise made available to the Government by MCC ("**MCC Gender Policy**") and any resettlement will be carried out in accordance with best international resettlement standards based on the World Bank's Operational Policy on Involuntary Resettlement in effect as of July 2007 ("**OP 4.12**") and in accordance with procedures approved by MCC. 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 Moldova; (b) implement to MCC's satisfaction environmental and social mitigation measures identified in such environmental review; and (c) commit to fund environmental mitigation, (including costs of resettlement) in excess of MCC Funding not specifically provided for in the budget for any Project.

To maximize the positive social impacts of the Projects, address cross-cutting social and gender issues such as human trafficking, child and forced labor, and HIV/AIDS, and ensure compliance with the MCC Gender Policy, MCA-Moldova will: (i) develop a comprehensive social and gender integration plan which, at a minimum, identifies approaches for regular, meaningful and inclusive consultations with women and other vulnerable/underrepresented groups, consolidates the findings and recommendations of Project-specific social and gender analyses and sets forth strategies for incorporating findings of the social and gender analyses into final Project designs as appropriate; and (ii) ensure, through monitoring and coordination during implementation, that final Project Activity designs, construction tender documents and implementation plans are consistent with and incorporate the outcomes of the social and gender analysis and social and gender integration plan.

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. Transition to High Value Agriculture Project.

- (a) Summary of Project and Activities.

The objectives of the Transition to High Value Agriculture Project are to: (i) increase rural incomes by stimulating growth in irrigated high value agriculture; and (ii) catalyze future investments in high value agriculture by establishing a successful and sustainable model of irrigation system and water resource management and a conducive institutional and policy environment for irrigated agriculture.

The Transition to High Value Agriculture Project consists of four reinforcing and integrated activities that, when implemented together, address the key constraints facing Moldovan producers: lack of reliable water, lack of financing, lack of access to markets and technologies, and lack of know-how (the “**Transition to High Value Agriculture Project**”). The Transition to High Value Agriculture Project will increase the ability and willingness of farmers to make the transition to higher value fruit and vegetable production. By addressing infrastructure and institutional/market constraints, the Transition to High Value Agriculture Project will break the vicious cycle of poor water service, low water tariff revenue, underinvestment in irrigation system maintenance, and low investment by farmers in high value agriculture (resulting in low agricultural incomes). The Transition to High Value Agriculture Project provides the first opportunity to pilot a set of institutional and management reforms, together with much needed infrastructure rehabilitation that will set the stage for future investment and enable Moldova to benefit from its natural comparative advantage in agriculture.

The Transition to High Value Agriculture Project will: (i) rehabilitate up to 11 irrigation systems covering a command area of up to approximately 15,500 hectares (the “**Centralized Irrigation System Rehabilitation Activity**”); (ii) provide technical assistance and capacity building to (1) support legal transfer of management and operations of MCC-rehabilitated systems from the Government to Water User Associations (“**WUAs**”), (2) improve water resource management, including establishment of a modern water rights system, and (3) ensure the legal and institutional framework needed for private and/or donor investment in the irrigation sector (the “**Irrigation Sector Reform Activity**”); (iii) provide term financing and technical assistance to support high value agriculture-related investments by farmers and rural entrepreneurs (the “**Access to Agricultural Finance Activity**”); and (iv) provide market development support and technical assistance and training to help producers and agribusinesses better access high value agriculture markets and support the shift to high value agriculture at the production and post-harvest level, and promote sustainable agricultural practices (the “**Growing High Value Agriculture Sales Activity**”), the latter to be undertaken jointly with, and administered by, the United States Agency for International Development (“**USAID**”).

The Transition to High Value Agriculture Project consists of the following Activities:

- (i) Centralized Irrigation System Rehabilitation Activity.

Most of the Government-owned irrigation infrastructure in Moldova requires rehabilitation to bring the systems back into working condition. MCC Funding will be used to rehabilitate up to 11 systems to provide reliable water to farm operations in their command areas. The 11 systems eligible for rehabilitation have completed feasibility studies and are listed below, along with their respective system numbers as listed in the Government proposal to MCC, as follows:

1. Chircani-Zirnesti (6-6)
2. Blindesti (3-2)
3. Grozesti (3-6)

4. Leova Sud (5-4)
5. Cahul (6-9)
6. Jora de Jos (11-6)
7. Lopatna (11-7)
8. Cosnita (12-3)
9. Criuleni (14-2)
10. Puhaceni (14-11)
11. Roscani (14-13)

Specifically, in the above systems that are rehabilitated, MCC Funding will support:

(1) Construction activities: These costs may include, without limitation, simple repair and/or replacement of pumps, valves, piping and ancillary systems, water intakes, related electrical and control systems, and pump station buildings; rehabilitation of reservoirs; and, installation of new system components where needed.

(2) Non-construction activities: These costs may include, without limitation, studies, construction supervision, WUA equipment reserve, environmental and social mitigation (including temporary or permanent resettlement compensation associated with construction) and other project management costs and technical assistance to be incurred in connection with the Centralized Irrigation System Rehabilitation Activity.

(ii) Irrigation Sector Reform Activity.

The Irrigation Sector Reform Activity is designed to: (1) establish the enabling environment and institutional capacity required to ensure effective management (operations, maintenance and financing) of the rehabilitated irrigation systems (thereby better ensuring their sustainability); and (2) improve Moldova's capacity to manage its limited water resources in light of increasing demand for water and the expected effects of climate change.

MCC and the Government agree that institutional and policy reforms surrounding the centralized irrigation sector are necessary to maximize sustainability and project impact. The Irrigation Sector Reform Activity will transfer management responsibility for irrigation systems rehabilitated using MCC Funding from the Government to users by establishing and building capacity within WUAs. As a necessary condition for success in transfer of management and operations and maintenance responsibilities to WUAs, a new WUA law acceptable to MCC ("**WUA Law**") is required in Moldova to provide a solid legal foundation both for the transfer process and for the WUAs themselves to manage the systems. The Government will also ensure passage of a new water law acceptable to MCC ("**Water Law**") that will provide more secure long-term water rights and the framework to issue water management authorizations and improved and upgraded systems for water resource management at the basin level.

The Irrigation Sector Reform Activity consists of two sub-Activities: (1) the creation and implementation of improved institutional arrangements for the operations and maintenance of rehabilitated irrigation infrastructure (the "**Irrigation Management Transfer Sub-Activity**"); and (2) a comprehensive approach to water management to build the Government's capacity to ensure that water resources are effectively managed over the long term (the "**River Basin Management Sub-Activity**").

(1) Irrigation Management Transfer Sub-Activity.

The main objectives of the Irrigation Management Transfer Sub-Activity are: (A) establishment of fully-functional WUAs with the capacity to effectively manage and maintain the rehabilitated systems; and (B) legal transfer of management responsibilities from the Government to those WUAs through management transfer agreements (“*MTAs*”).

MCC Funding will support technical assistance and training to: (A) assist WUA formation in a manner consistent with the WUA Law and with best practices of financially and operationally sustainable water service entities; (B) build capacity within WUAs to exercise responsibility for operations and maintenance of the rehabilitated systems; (C) support creation of a legal environment that enables WUAs to exercise this responsibility (WUA Law, Water Law with long-term water rights, and binding MTAs in full compliance with Moldovan law); and (D) assist and support the Government, as the legal owner of the irrigation infrastructure, to negotiate and sign system specific MTAs that legally transfer irrigation management responsibilities to WUAs for all rehabilitated systems.

(2) River Basin Management Sub-Activity.

Water resource management is vital to the sustainability of both irrigated agriculture and Moldova’s long-term non-agricultural development. Growing demand for water, and concerns about climate change and the increasing frequency of drought and floods require improved water resource planning and secure water rights. The purpose of this sub-Activity is to help the Government improve management of water resources and assess future water availability in order to promote sustainable growth in the agricultural sector. In particular, the sub-Activity will: (A) support the implementation of a Water Law and development of secondary regulations institutionalizing a modern system of secure, long-term water rights and river basin management; (B) provide institutional support and equipment (geographical information systems, databases, and decision support tools) to the Government to improve its ability to monitor water quality and quantity and issue water certificates under a Water Law and river basin management system; and (C) build institutional capacity in the Government to engage stakeholders in the participatory planning and management of water resources through a system of basin and sub-basin councils and management plans.

(iii) Access to Agricultural Finance Activity.

The objective of the Access to Agricultural Finance Activity is to provide term financing needed to support increased investment in the high value agriculture supply chain to facilitate transition to high value agriculture, with particular focus on serving farmers and enterprises operating in the irrigation systems targeted for rehabilitation. Improved sorting and packing of produce, and the ability to extend the production and marketing season, can assist Moldovan producers to become more competitive in domestic and export markets and to sell their production at a higher price. However, with virtually no domestic sources of long-term funding and little ability to access international debt markets, Moldovan financial institutions largely lack the ability to lend for investments in the high value agriculture supply chain for periods longer than three years.

The Access to Agricultural Finance Activity will be initiated on a pilot basis, which will be evaluated through an independent impact evaluation. The impact evaluation will likely involve

some denial of credit under the Activity to otherwise eligible approved borrowers, possibly through randomization. The final decision whether to scale up or terminate the program will be in accordance to the PIA and will ensure that the activity, if scaled up, is likely to have an economic rate of return of 12 percent as determined by MCC’s model for the Access to Agricultural Finance Activity in consultation with MCA-Moldova, or a rate acceptable to MCC, given the level of “additionality” of investment evidenced by the pilot, as well as other known parameters and costs of the activity at the time of this review.

The Access to Agricultural Finance Activity consists of two sub-Activities: (1) term financing to support increased investments in the high value agriculture value chain (the “**High Value Agriculture Post-Harvest Credit Facility**”); and (2) demand-driven investment development services support (the “**Investment Development Services**”).

(1) High Value Agriculture Post-Harvest Credit Facility Sub-Activity.

The objective of the High Value Agriculture Post-Harvest Credit Facility will provide term loans (three to seven years) through participating financial institutions (“**PFI**s”) to fund post-harvest supply chain investments. It will be managed by the Credit Line Directorate (the “**CLD**”), which is a program management unit within the Ministry of Finance established by the World Bank to oversee donor funded credit lines. Loans will be provided on a “back-to-back” basis (loans to PFIs will be made against, and will mirror terms of, PFI loans to end-borrowers). PFIs will take all repayment risk, with the obligation to repay loans regardless of the performance of the end-borrowers. PFIs will make their own underwriting decisions, subject to eligibility requirements stipulated by MCA-Moldova and MCC in the high value agriculture post-harvest policy and procedures manual. The primary benefit of the High Value Agriculture Post-Harvest Credit Facility is not to subsidize lending by financial institutions or investment by end borrowers, but instead to provide longer-term funding which is otherwise not available in the Moldovan financial markets. An approximate market-based rate will be established and adjusting on new and existing credits every six months, according to the process and methodology outlined in the high value agriculture post-harvest policy and procedures manual. The full list of eligible investments will be provided in the high value agriculture post-harvest policy and procedures manual. The specific determination of interest rates will be done in a manner consistent with a positive premium for the provision of term financing, and in a manner which prices loans not significantly below market rates. MCC reserves the right to review rates in context of changing market conditions, but will not raise the subsidy element as a means to increase disbursements without independent analysis showing that this would lead to greater additionality of viable investment. Borrowers are not restricted to investments in, adjacent to, or serving the MCC irrigation command areas.

(2) Investment Development Services.

Support for investment development services will be provided on a demand-driven cost sharing basis through Moldovan investment development service providers to those producers, producer groups and rural entrepreneurs interested in developing post harvest investment projects and obtaining loans for them via the High Value Agriculture Post-Harvest Credit Facility.

(iv) Growing High Value Agriculture Sales Activity.

The objective of the Growing High Value Agriculture Sales Activity is to increase farmer incomes by increasing sales of higher-value fruit and vegetables. Market assessments made during the project development process (and supported by the analysis of other donors) concluded that Moldova might have a comparative advantage in high value agriculture production. However, to realize this comparative advantage and compete on international markets, Moldovan high value agriculture producers and the Government will need to: (1) aggressively seek export market opportunities; (2) upgrade production and the post harvest supply chain; (3) improve the enabling environment and create conditions conducive to high value agriculture (including reducing restrictions on new seed varieties and on imports of fertilizers and agriculture equipments); and (4) improve Moldova's compliance with sanitary and phytosanitary standards and ability to meet international standards.

To simplify implementation and increase efficiency, MCC Funding will be used to expand a planned USAID-administered agricultural development project and to target Transition to High Value Agriculture Project beneficiaries, such as producers within the rehabilitated systems and other value chain actors active in the high value agriculture markets. Subject to funding availability, USAID intends to contribute funding and administer and implement the program on behalf of MCA-Moldova and MCC. Specifically, MCC Funding will support the following tasks under the joint MCA-Moldova and USAID Growing High Value Agriculture Sales Activity:

(1) Develop and Expand Market Opportunities for Moldovan High Value Agriculture Sub-Activity. This sub-activity will focus on identifying market opportunities and understanding buyer requirements and specifications, with the objective of increasing export sales and attracting regional buyers and private sector investment to Moldova. As a part of the process of facilitating transactions and promoting Moldova as a source of high value agriculture in the region, several approaches for establishing a sustainable yet flexible network of buyers will be developed and tested.

(2) Training to Upgrade Production and Meet Buyer Requirements Sub-Activity. This sub-activity will develop a field and classroom-based program to help value chain actors, with primary focus on producers and producer groups; better understand and meet buyer requirements; reduce production and marketing costs; capture price premiums; and increase sales through improved high value agriculture production, post-harvest, and marketing practices. Training will include assistance to farmers to promote sustainable agricultural practices, specifically pest management, and soil and water conservation. Moldovan agriculture service providers, supplemented with international sector specialists as required, will implement a no-fee training program targeting beneficiaries both inside and outside the rehabilitated systems.

(3) Demand-Driven Technical Assistance to Upgrade the High Value Agriculture Value Chain Sub-Activity. This sub-activity is designed to support increased investment and improved performance in the high value agriculture value chain, with particular focus on the post-harvest infrastructure and equipment required to transition farmers to increased production of high value agriculture and enable producers, wholesalers and exporters to remain competitive and deliver fresh produce (properly packaged, stored and transported) to increasingly quality conscious buyers in the European Union, Commonwealth of Independent States, and domestic retail markets. A pre-approved group of local and international service

providers will be established to provide customized consulting and business development services on a competitive, cost-sharing basis.

(4) Implement Recommendations for an Improved Enabling Environment Sub-Activity. This sub-activity will augment on-going efforts by USAID and other donors to identify and implement needed policy reforms in the agriculture sector which will improve competitiveness and increase or preserve access to export markets. This task will: (A) provide technical assistance to help the Government adopt legislation and policies to implement reforms that support high value agriculture, with specific attention to improving access to (and reducing import tariffs on) quality seeds, fertilizers, and other inputs, including high value agriculture-related equipment; and (B) establish sanitary and phytosanitary standards systems and procedures to support exports and reduce the risks of export bans through narrowly targeted upgrades in Government sanitary and phytosanitary controls, including laboratory equipment. As part of this component, the Ministry of Agriculture and Food Industry will be required to provide refurbished laboratory space, in conditions acceptable to USAID.

(b) Beneficiaries.

By 2029, the Parties expect that the Transition to High Value Agriculture Project will have benefitted at least 124,000 individuals, or at least 31,000 households. Beneficiaries of the Transition to High Value Agriculture Project include households with owners or shareholders of farming enterprises, farmers or owners of land, producers and intermediaries investing in and working in the high agriculture value sector, and laborers employed in the operation of enterprise farms within the command areas where MCC will rehabilitate the irrigation systems and producers and agribusinesses outside the systems targeted for rehabilitation that are already engaged in the high value agriculture sector.

Farm enterprises in the centralized irrigation system areas are expected to capture the majority of the Transition to High Value Agriculture Project's benefits. Up to 3,100 farm households are expected to benefit from the rehabilitation of centralized irrigation systems. Switching from non-irrigated to irrigated agriculture in Moldova can increase profitability by 200-500 percent or higher on a per hectare basis, depending on the crop mix. In the next 20 years, poor households could realize a cumulative increase in income equivalent to three years of current farm earnings, even with assumptions of gradual and partial adoption of irrigation. Individuals employed in seasonal labor will also benefit from the Transition to High Value Agriculture Project. Demand for seasonal labor is projected to increase as farms switch from grains to more labor-intensive high value agriculture crops. A projected 9,300 employees, most of whom are poor, will realize increased wage income due to greater demand for agricultural labor in the centralized irrigation system areas. Landowners will also benefit from the increased productivity and value of their land once it has access to irrigation. It is projected that approximately 15,500 individuals renting out their agricultural land will realize increased rent income of at least 20 percent.

The Access to Agricultural Finance Activity will directly benefit more than 100 post-production investors. The Growing High Value Agriculture Sales Activity, which is intended to use USAID funds, subject to availability, and MCC Funding, will assist individuals in the centralized irrigation system areas, as well as an additional 2,000 high value agriculture producers outside the centralized irrigation system areas, of whom at least 1,300 producers are expected to realize income gains. Additionally, the policy improvement and efforts to improve sanitary and phytosanitary standards of the Growing High Value Agriculture Sales Activity is expected to

increase and safeguard incomes for all high value agriculture producers in Moldova, estimated at 83,000 households and 315,000 beneficiaries as of 2009.

(c) Environmental and Social Mitigation.

The Transition to High Value Agriculture Project is classified as “Category A” according to MCC Environmental Guidelines because it could potentially result in significant, long-term direct, indirect, and cumulative environmental and social impacts, including impacts to two international waterways. Environmental and social impact assessments have been initiated, which will inform detailed project design and establish environmental management plans and resettlement policy framework or action plans to be implemented during the construction and operation phases of the project

The Access to Agricultural Finance Activity will be designed and implemented in accordance with requirements set forth in MCC Environmental Guidelines for “Category D” (financial intermediary) projects, requiring pre-screening of loan applications for environmental and social impacts as part of the approval process. MCC Environmental Guidelines under Category D reserves for MCC the “right to set additional performance standards and monitoring requirements for subprojects on a case-by-case basis, depending on the nature of the intermediate facility.”

(d) Donor Coordination.

MCC has coordinated closely with the two donors most active in the agriculture sector in Moldova – USAID and the World Bank – on the Transition to High Value Agriculture Project. MCC has also worked closely with the European Union, World Bank, Organization for Economic Co-operation and Development, and the United Nations Development Fund for Women on environmental and social issues such as water resource management and gender. Further, the World Bank Mission in Chisinau, Moldova, and World Bank sector and regional specialists in Washington, DC, have provided contacts, studies, lessons learned, and informal peer review at all stages in the process starting with early concerns about land tenure and consolidation issues. Input and collaboration between the World Bank and MCC have been the most significant and influential in the development of the access to agricultural finance, irrigation management transfer, and food safety components and interventions.

Also significant is the successful partnership between USAID, MCC and MCA-Moldova. USAID and MCC worked together to develop a joint project designed to build on USAID’s 15 years of experience in the agriculture sector and, at the same time, support the significant MCC irrigation infrastructure investment. Subject to the availability of funds, the joint Growing High Value Agriculture Sales Activity is intended to provide the technical assistance and market development support needed to help producers transition to high value agriculture fruit and vegetable crops. The Growing High Value Agriculture Sales Activity, which will target, but will not be limited to, areas where MCC irrigation rehabilitation will occur, is designed to emphasize promotion of market opportunities within Moldova and encourage increased private sector and foreign investment in the high value agriculture sector. Subject to the availability of funds, USAID intends to contribute funding for the Growing High Value Agriculture Sales Activity, which would be administered by USAID on behalf of MCA-Moldova. This joint approach addresses and reduces implementation capacity concerns by allowing for improved implementation and project oversight and more efficient use of resources.

(e) Sustainability.

The Transition to High Value Agriculture Project is designed as a comprehensive project that will increase farmer incomes and break the cycle of poor water service, low water tariff revenue, underinvestment in irrigation system maintenance, and low investment by farmers in high value agriculture. Each of the four activities reinforces the other in ensuring project sustainability and building the capacity of local institutions and service providers.

The Irrigation Sector Reform Activity, and its Irrigation Management Transfer Sub-Activity and River Basin Management Sub-Activity, are designed to ensure that the rehabilitated centralized irrigation systems (MCC's primary high value agriculture investment) are effectively operated and maintained through the transfer of responsibility for operations and maintenance to the WUAs. A condition for commencing rehabilitation of these systems is the passage of a WUA Law that will support the legal transfer of responsibility for Government owned assets to WUAs. The WUA Law will require that WUA membership represents at least 50 percent of the users and 50 percent of the intended service area of the WUA. The WUA Law will also empower the WUAs with the authority to establish and collect water tariffs sufficient to cover their fixed costs and ensure financial stability of the rehabilitated systems. The River Basin Management Sub-Activity will provide a comprehensive approach to water management to build the Government's capacity to ensure that water resources are effectively managed over the long term.

The Access to Agricultural Finance Activity and Growing High Value Agriculture Sales Activity address the need to upgrade production and the high value agriculture value chain in order for Moldovan high value agriculture producers to become and remain competitive in the long term. It will also promote water and soil conservation, integrated pest management, and other sustainable agricultural practices. Both of these activities are driven by market signals and demand from the value chain actors, ensuring that the most appropriate and targeted training and technical assistance is provided. Technical assistance programs in both activities will utilize local service providers whenever possible, and will provide training to those local service providers so that they are able to sustainably serve the market after the Compact is completed. The High Value Agriculture Post-Harvest Credit Facility is intended to extend beyond the end of the Compact to facilitate issuance of loans extending beyond the Compact.

(f) Policy, Legal and Regulatory Reforms.

Regulatory reform is required for the success of the Transition to High Value Agriculture Project. The publication in the "Monitorul Oficial" of the WUA Law acceptable to MCC, which law will be in full force and effect no later than three months after the date of publication, is a condition precedent to signing the detailed design studies contract for the centralized irrigation system rehabilitation. Registration of WUAs to operate and maintain the centralized irrigation systems to be rehabilitated, and publication in the "Monitorul Oficial" of the Water Law acceptable to MCC are conditions precedent to commencement of procurement for the centralized irrigation system construction works contract.

2. Road Rehabilitation Project.

(a) Summary of Project and Activities.

The objectives of the Road Rehabilitation Project (the “**Road Rehabilitation Project**”) are to: (i) increase incomes of the local population by reducing the cost of transport, goods and services; (ii) reduce losses to the national economy resulting from the deteriorated road conditions; and (iii) reduce the number of road accidents through improved traffic conditions. Rooted in the National Development Strategy and the Land Transport Infrastructure Strategy (2008-2017), the Road Rehabilitation Project was developed with the assistance of external partners in the road sector (World Bank, European Bank for Reconstruction and Development, European Investment Bank, European Commission, and MCC, collectively the “**Joint Group**”). The strategy recommends the rehabilitation of the major trans-national axis that crosses Moldova from north to south.

The Road Rehabilitation Project will improve part of the M2¹ road (“**M2**”), which is an arterial highway from the Moldovan capital, Chisinau, through the city of Soroca, to the Ukrainian border and beyond to Kyiv, the Ukrainian capital. This route contains significant traffic flows, serves as a significant link between Moldova and Ukraine for private, passenger, and commercial traffic, and has been prioritized by the Government for rehabilitation.

The Road Rehabilitation Project consists of the following:

(i) M2 Road Activity.

MCC Funding will be used to rehabilitate and upgrade a 93 km portion of the M2, beginning near Sarateni at the southern end and ending at the junction with the R7 road west to Drochia (the “Drochia junction”) at the northern end (the “**M2 Road Activity**”). MCC Funding will also be used to replace or upgrade associated structures within this segment of the M2, such as bridges, drainage systems and culverts, to improve road maintenance and safety. The M2’s improvement is expected to reduce vehicle operating costs, reduce travel time, change maintenance costs, cause an increase in the value of goods moved and cause an increase in frequent travel. Specifically, MCC Funding will support:

(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 Activity.

(2) Non-construction costs: These costs include, without limitation, studies, construction supervision, environmental and social mitigation (including resettlement),

¹ As referenced, the M2 includes approximately 9 km of the R7 road.

and other project management costs and technical assistance to be incurred in connection with the M2 Road Activity.

(ii) Supplemental Feasibility Study/ESIA and Design.

MCC Funding will also be used for a feasibility study/environmental and social impact assessment for the road segment from Arionesti to the border crossing in Otaci, detailed design work, a resettlement action plan and an updated environmental and social impact assessment for the entire road section from the Drochia junction to the border crossing in Otaci.

(b) Beneficiaries.

The M2 Road Activity is expected to benefit approximately 78,000 households over the next 20 years, or approximately 302,000 beneficiaries. Rehabilitation of the M2 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. In addition, sellers and merchandisers of products transported along this road will likely benefit. At present there are approximately 273,000 beneficiaries living along the road, and approximately 29,000 individuals from the road rehabilitation outside the region. Over 20 years, poor beneficiary households (earning less than US\$2 purchasing power parity (“*PPP*”) per day per capita) could realize a cumulative increase in income equivalent to more than one year of current income. Taking into account traffic originating from and destined for areas outside the adjacent areas, the beneficiary analysis estimates that about 15 percent of the beneficiaries of the investment will be among households that now live on less than US\$2 per person per day (in PPP terms).

(c) Environmental and Social Mitigation.

The M2 Road Activity is classified as “Category B” according to MCC Environmental Guidelines. The M2 Road Activity is expected to produce site-specific and limited environmental and social impacts that can be mitigated and monitored. An environmental and social impact assessment has been initiated which will inform detailed product design and establish an environmental management plan and resettlement policy framework and action plans for construction.

(d) Donor Coordination.

In addition to general coordination with the Joint Group, the Road Rehabilitation Project will benefit from technical assistance being provided to the State Road Administration through the Road Sector Support Program funded by an approximate US\$5 million World Bank credit. The program will fund consulting services for design and introduction of an axle load control system; consulting services for reform of road maintenance execution arrangements (including road asset valuation); technical and financial audits; support by local consultants in the areas of procurement, environment, and financial management; and training activities.

(e) Sustainability.

Sustainability of the Road Rehabilitation Project requires both routine and periodic maintenance, which can only be accomplished if there is adequate funding and if appropriate mechanisms are

in place to carry out the maintenance. A lack of maintenance is evidenced by the state of deterioration of the road. At least 50 percent of the road needs to be reconstructed from the sub-base. Most of the bridges show severe corrosion of the reinforcement bars, causing a loss of required strength and concrete spalling.

The Government, with the assistance of the Joint Group, had adopted the Land Transport Infrastructure Strategy, which, along with other points, addresses the current deficiencies in road maintenance funding and execution. In particular, the Government committed in writing in February 2008 to amend the Road Fund Law to ensure that an adequate percentage of the revenue from the fuel excise tax, sources of revenue introduced in large part to fund road maintenance, would be automatically allocated to the Road Fund.

To increase the likelihood of sustaining the benefits of the rehabilitated M2, and to prepare a more sustainable basis for future investments in the roads sector, the Government will provide MCC with evidence that an amended Road Fund Law, providing a more reliable mechanism for adequate road maintenance funding, is in full force and effect, before invitations for construction bids are issued under the Compact. Measurable progress monitors are set forth in the Program Implementation Agreement as conditions precedent to disbursement for the Road Rehabilitation Project.

(f) Policy, Legal and Regulatory Reforms.

Policy, legal, and regulatory reforms are required to implement the Road Rehabilitation Project. As a condition precedent to commencement of procurement for construction, the Government will ensure the amendment of the Road Fund Law to provide sustainable funding for adequate road maintenance.

3. 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-Moldova.

In accordance with Section 3.2(b) of this Compact, MCA-Moldova 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-Moldova 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-Moldova 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 an account in a financial institution in the name of MCA-Moldova and hold MCC Funding in that account, (iv) expend MCC Funding, (v) engage a fiscal agent who will act on behalf of MCA-Moldova on terms acceptable to MCC, (vi) engage one or more procurement agents who will act on behalf of MCA-Moldova, on terms acceptable to MCC, to manage the acquisition of the goods, works, and services required by MCA-Moldova to implement the activities funded by 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 MCA-Moldova, in accordance with the applicable conditions precedent to the disbursement of Compact Implementation Funding set forth in Annex IV to this Compact.

MCA-Moldova will be administered and managed by a Steering Committee and a Management Unit. In addition, MCA-Moldova will have the Consultative Group to continue the consultative process during implementation of the Program. The governance of MCA-Moldova will be set forth in more detail in the Establishment Decree, the Program Implementation Agreement, and the internal regulations of MCA-Moldova (“***MCA-Moldova Bylaws***”), which will, collectively, set forth the responsibilities of the Steering Committee, the Consultative Group and the Management Unit. The MCA-Moldova Bylaws will be developed and adopted in accordance with MCC’s Guidelines for Accountable Entities and Implementation Structures, published on the MCC Website (the “***Governance Guidelines***”), and will be in form and substance satisfactory to MCC.

(i) Steering Committee.

(1) Composition. MCA-Moldova will be governed by the steering committee, or the board of directors (the “***Steering Committee***”), which will consist of voting members representing those Government ministries and civil society and private sector organizations set forth in the Establishment Decree. The Steering Committee will also consist of those non-voting observers set forth in the Establishment Decree. All voting members will be selected in accordance with the MCA-Moldova 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 Steering Committee, and any replacement for any voting member or any alteration of the size or composition of the Steering Committee, will be subject to MCC prior approval. In the event that none of the civil society and private sector organizations represented as voting members on the Steering Committee are from an environmentally focused non-governmental organization, an additional observer from such an organization, subject to the prior receipt of a no-objection notice from MCC, will be appointed.

(2) Roles and Responsibilities. The Steering Committee will be responsible for overseeing the implementation of the Program and will have final decision-making authority over the implementation of the Program. The Steering Committee will meet regularly; the frequency of meetings will be set forth in the MCA-Moldova 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-Moldova Bylaws.

(ii) Consultative Group.

(1) Composition. Pursuant to the Establishment Decree, the composition of the consultative group will be selected in accordance with the MCA-Moldova Bylaws and the Governance Guidelines and subject to MCC approval (the “**Consultative Group**”). Without limiting the foregoing, the Establishment Decree provides that the Consultative Group will be composed of, *inter alia*, Program beneficiaries, regional and local government representatives, entities with an interest or involvement in the implementation of the Program, and any applicable civil society and private sector representatives. In addition, the Steering Committee may establish regional, informal consultative groups in the project intervention zones composed of, *inter alia*, Program beneficiaries, regional and local government representatives, entities with an interest or involvement in the implementation of the Program, and any applicable civil society and private sector representatives. The establishment and composition of any such regional, informal consultative groups will also be subject to MCC approval.

(2) Roles and Responsibilities. Consistent with the Governance Guidelines, the Consultative Group (and any informal, regional stakeholders committees established by the Steering Committee) will be responsible for continuing the consultative process throughout implementation of the Program. While the Consultative Group (and any informal, regional stakeholders committees established by the Steering Committee) will not have any decision-making authority, it will be responsible for, *inter alia*, reviewing, at the request of the Steering Committee 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-Moldova regarding the implementation of the Program.

(iii) Management Unit.

(1) Composition. The management unit, which will be led by a competitively selected Executive Director, will be composed of competitively selected staff with expertise in the key components of the Program, including, without limitation, a Road Rehabilitation Project Director, Transition to High Value Agriculture Director, Centralized Irrigation System Rehabilitation Activity Director, as well as a Deputy Executive Director, a Legal Advisor, and other key Directors, including, without limitation, a Finance and Administrative Director, Communications and Documentation Director, a Procurement Director, a Monitoring and Evaluation Director, Environmental and Social Director, and Social and Gender Officer (the “**Management Unit**”). The Management Unit will also include such other personnel as provided for in the MCA-Moldova Bylaws. The directors will be supported by appropriate additional staff to enable the Management Unit to execute its roles and responsibilities.

(iv) Roles and Responsibilities. The Management Unit will be based in Chisinau, Moldova, and will be responsible for managing the day-to-day implementation of the Program, with oversight from the Steering Committee. 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-Moldova will be subject to Government audit requirements. As a recipient of MCC Funding, MCA-Moldova 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 and/or Activities (and/or any component 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-Moldova 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-Moldova, 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-Moldova, 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-Moldova, 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-Moldova 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 attached hereto as Exhibit A. By such time as is specified in the PIA, 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 and the Government’s contribution of funds and resources, 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 (“*Multi-Year Financial Plan*”).

EXHIBIT A
MULTI-YEAR FINANCIAL PLAN SUMMARY

Multi-Year Financial Plan Summary – Projected Disbursements (US\$)							
Project	Prior to EIF	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1. Transition to High Value Agriculture (THVA) Project							
Activity 1.1: Rehabilitation of Centralized Irrigation Systems (CIS)							
Activity 1.2: Irrigation Sector Reform (ISR)							
Activity 1.3: Access to Agricultural Finance (AAF)							
Activity 1.4: Growing High Value Agriculture Sales (GHS)							
Sub-Total	511,803	8,607,776	19,560,020	30,880,103	28,323,440	13,890,259	101,773,401
2. Road Rehabilitation Project							
Activity 2.1: M2 Sarateni - Drochia Junction							
Activity 2.2: M2 Drochia Junction - Otaci Studies							
Sub-Total	37,500	2,037,500	26,278,000	52,206,000	39,142,000	13,139,000	132,840,000
3. Monitoring and Evaluation (M&E)							
Monitoring and Evaluation							
Sub-Total	20,000	489,250	310,844	939,745	399,556	1,379,536	3,538,931
4. Program Administration and Audit							
MCA-Moldova							
Fiscal Agent / Procurement Agent							
Audit							
Sub-Total	362,691	4,822,771	4,680,772	4,554,660	4,750,702	4,676,072	23,847,668
Grand Total	931,994²	15,957,297	50,829,636	88,580,508	72,615,698	33,084,867	262,000,000

² Total commitments of Compact Implementation Funding are expected to be approximately US\$8.0 million. Disbursement of Compact Implementation Funding will continue after entry into force of the Compact.

ANNEX III

DESCRIPTION OF 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 Project 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 and other reports, will be made publicly available on the website of MCA-Moldova 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.

3. Monitoring Component.

To monitor progress toward the achievement of the impact and outcomes, 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 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 (each a, “*Baseline*”). MCA-Moldova 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-Moldova 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. The Target of these Indicators are national goals as specified in Moldova's "National Development Strategy" to which the Project contributes, but are not solely attributable to the Project:

(A) Absolute poverty rate nationwide: 30.2 percent to 20.0 percent by year 2015; and

(B) Absolute rural poverty rate: 34.1 percent to 22.6 percent by year 2015.

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

Table 1: Transition to High Value Agriculture Project Objective Indicators

Result	Indicator	Definition of Indicator	Baseline ³	Year 5
Incomes increase due to transition to high value agriculture interventions	Increase in the annual profits of crop production per hectare	Total annual profits of crop production in areas targeted by the Centralized Irrigation System Rehabilitation Activity (“ <i>Target Areas</i> ”) (excluding rent and labor cost) / total Target Areas (US\$) ⁴	180	390
	Increase in the rent for land paid to lessors per hectare	Average rent paid by lessee to lessor per hectare of rented land in Target Areas (US\$) ⁵	80	100
	Increase in the wage bill paid to labor per hectare	Value of labor (total person-days of labor × average daily wage excluding household labor) per annum / total Target Areas (US\$) ⁶	40	180
	Increase in the annual profits among assisted farms outside of Target Areas	Percent differential between the annual per hectare profit (excluding rent and labor costs) realized among assisted farms outside of Target Areas and a comparison farm group	NA	20%
Moldova has examples of a model for transition to high value agriculture in centrally irrigated areas and an enabling environment (legal, financial, and market) for replication of the model	Increase in the area irrigated in Target Areas	Number of hectares of irrigated crops (high value agriculture, grains and technical crops) in Target Areas ⁷	1,100	3,460
	Adoption of HVA crops in Target Areas	Number of hectares of irrigated and non-irrigated high value agriculture crops (fruits, grapes, vegetables, potatoes, etc.) in Target Areas ⁸	1,800	2,840

³ All currency figures are in 2009 values using a market conversion rate of 10.52 MDL/US\$.

⁴ After Year 5, MCC forecasts this figure will reach a peak value of 1,540 US\$. The target refers and will be assessed only with respect to irrigation systems which have been rehabilitated and have completed one growing season after rehabilitation completion.

⁵ The target refers and will be assessed only with respect to irrigation systems which have been rehabilitated and have completed one growing season after rehabilitation completion.

⁶ After Year 5, MCC forecasts this figure will reach a peak value of 420 US\$. The target refers and will be assessed only with respect to irrigation systems which have been rehabilitated and have completed one growing season after rehabilitation completion.

⁷ After Year 5, MCC forecasts this figure will reach a peak value of 13,000 hectares.

⁸ After Year 5, MCC forecasts this figure will reach a peak value of 9,300 hectares.

Table 1.1: Rehabilitation of Centralized Irrigation Systems Activity Indicators				
Result	Indicator	Definition of Indicator	Baseline⁹	Year 5
Outcome Level Indicators				
Rehabilitated centralized irrigation systems can serve a large agricultural area	Command area with access to functional systems expands	Hectares of agricultural land with access to the functional centralized irrigation systems rehabilitated under Compact	1,100	15,500
Output Level Indicators				
Rehabilitated centralized irrigation systems can serve a large agricultural area	Centralized irrigation systems rehabilitated	Number of centralized irrigation systems with rehabilitation works completed under Compact	NA	11

⁹ All currency figures are in 2009 values using a market conversion rate of 10.52 MDL/US\$.

Table 1.2: Irrigation Sector Reform Activity Indicators

Result	Indicator	Definition of Indicator	Baseline	Year 5
Outcome Level Indicators				
Management of centralized irrigation systems shifted to users	WUAs established under new law	Number of WUAs registered under new specific WUAs law	NA	11
	MTAs signed	Number of MTAs signed between the Government, assisted WUAs, and MCA-Moldova	NA	11
Effective governance and management in systems rehabilitated under the Compact	Improved perception of quality of service by water users	Percentage of centralized irrigation systems users satisfied with the timeliness, cost and administration of irrigation ¹⁰	41	75
	WUAs achieving financial sustainability	Number of assisted WUAs where tariffs collected covers 100% of operating costs plus an amount for capital/replacement costs.	NA	11 or all systems rehabilitated
	Active and representative governance	Number of WUAs with annual plans and year end reports approved by their respective general assemblies	NA	11 or all systems rehabilitated
	Gender-balanced WUAs' management and governance	Number of WUAs having at least 20% of board member positions filled by women	NA	9 or 80% of systems rehabilitated
Enhanced management of water resources based on river basin management	Revised water management policy framework - with long-term water rights defined – established	The Water Law which establishes long-term water rights is in full force and effect	Water Law circulated for comments	Water Law in full force and effect

¹⁰ Index of perceptions/ satisfaction with timeliness, cost, and administrative service is measured through a weighted average of percentages of users answering “4” and “5” to questions 20.1.3 (50 percent), 21.1.1 (25 percent), and 21.4.1 (25 percent) of the Moldova transition to high value agriculture Baseline Farm Survey completed in 2009.

Table 1.3: Access to Agricultural Finance Activity Indicators¹¹

Result	Indicator	Definition of Indicator	Baseline	Year 5
Outcome Level Indicators				
Post-harvest infrastructure and equipment is in place to support increases in high value agriculture	New high value agriculture post-harvest infrastructure and equipment operating effectively	Operational cold-storage capacity of high value agriculture post-harvest structures financed under the Access to Agriculture Finance Activity (metric tons)	0	10,500 ¹²
		Percentage of the financed amount of the investment deemed to be additional ¹³	0	75
Investment Development Support Services facilitate creation of post-harvest enterprises and result in new jobs	New agricultural loans resulting from Investment Development Services	Number of agricultural loans received by borrowers which received support from Investment Development Services	0	55
Output Level Indicators				
Farmers and agricultural businesses have enhanced access to affordable and adequate finance	Affordable financing provided for post-harvest infrastructure through the High Value Agriculture Post-Harvest Credit Facility	Amount of loans provided under the Access to Agriculture Finance Activity for post-harvest infrastructure (US\$)	0	14,900,000

¹¹ The achievements of these targets are subject to the continuation and completion of the Activity after the pilot phase.

¹² Based upon a projected cumulative five year loan volume of 14,900,000 US\$, a price per metric ton for cold storage capacity of 750 US\$, a loan-to-investment ratio of 60 percent, and approximately 50 percent of total loans financed devoted to cold storage. Cold storage facility is assumed to be operational within one year of the loan issuance.

¹³ For example, similar individuals who do not access financing from the project are expected to find financing equivalent to or less than 25 percent of the financing received by project beneficiaries.

Table 1.4: Growing High Value Agriculture Sales (USAID-administered) Activity Indicators¹⁴

Result	Indicator	Definition of Indicator	Baseline	Year 5
Outcome Level Indicators				
Trade relations of Moldovan high value agriculture suppliers are enhanced due to promotion activities	Value of sales facilitated	Value of annual sales facilitated by the Activity contractor on behalf of Moldovan producers or producer groups (US\$)	NA	10,500,000
Farmers, producer business cooperatives, and exporters meet buyer requirements, lower costs, capture price premiums, and increase sales due to technical assistance	Farmers apply acquired knowledge	Number of farmers adopting practices presented through technical assistance programs, among farmers within Target Areas and farmers outside Target Areas under the Growing High Value Agriculture Sales Activity	NA	2,800
Enabling environment for high value agriculture production and export market access is improved due to implementation of policy and sanitary and phytosanitary standards recommendations	Reduced risk of export bans due to improved export certification and inspection systems	Moldova sanitary and phytosanitary services achieve compliance with IPPC, ISPM Guidelines 7, 20 and 23 and the Central Phytosanitary Laboratory is certified to ISO 9000 standards as confirmed by an independent auditor	NA	Audit "passed"

¹⁴ The achievements of these targets are subject to full funding of this Activity by MCC (US\$4.4 million) and USAID (US\$9.0 million, subject to availability of funds). In the case of partial funding of this Activity, the targets will be revised by mutual agreement of MCC, USAID, and MCA-Moldova in the M&E Plan.

Table 2: Road Rehabilitation Indicators

Result	Indicator	Definition of Indicator	Baseline	Year 5
Objective Level Indicators				
Transportation conditions are enhanced	Reduced costs to road users	Value of time savings and reduced vehicle operating costs with the project compared to no rehabilitation (modeled by HDM4) (US\$)	0	112,000,000
	Increased vehicular activity	Average annual daily traffic on the road segment rehabilitated under Compact	3,009	4,270
Outcome Level Indicators				
Road quality is improved	Improved international roughness index	International roughness index for the road segment rehabilitated under Compact ¹⁵	12	2
Road network is sustainably maintained	Revised legislative basis for road maintenance funding designed to meet the needs for sustainability of roads infrastructure	Appropriate legislation is in full force and effect in accordance with the Program Implementation Agreement to ensure a sufficient percentage of revenue from the fuel excise tax is automatically allocated to the Road Fund	Draft Road Fund Law has been presented to the Joint Group of external partners	Road Fund Law in full force and effect
Output Level Indicators				
Roads are rehabilitated	Total length of roads rehabilitated	Total length of road sections rehabilitated (km)	0	93

(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 Project 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.

¹⁵ The target represents the minimum International Roughness Index of the road segment during the life of the Compact.

(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 ministries.

(e) Role of MCA-Moldova. 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-Moldova is responsible for implementation of the M&E Plan. MCA-Moldova 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) project performance 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 Website (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 potential impact evaluation methodologies:

(i) Transition to High Value Agriculture Project.

(1) The Centralized Irrigation System Rehabilitation Activity and Irrigation Management Transfer Sub-Activity will be examined in conjunction with the MCC sponsored impact evaluation in order to measure the combined effect of improved access to water and the technical assistance offered under the Growing High Value Agriculture Sales Activity as well as the stand alone value of the irrigation rehabilitation. Over time, hectares irrigated, hectares producing high value agriculture crops, and farm profits in areas where the Centralized Irrigation System Rehabilitation Activity and Irrigation Management Transfer Activity are implemented should increase dramatically compared to areas outside the project area, and the path of causation would be clear, therefore methodologies employing randomization of access to the Centralized Irrigation System Rehabilitation Activity and Irrigation Management Transfer Activity will not be a necessary element of the evaluation. This strategy is contingent on timely execution of the Centralized Irrigation System Rehabilitation Activity that would allow at least one growing season after improved irrigation to be observed.

(2) For the Access to Agricultural Finance Activity, the incremental impact that can be attributed to MCC's investments will be estimated by comparing outcomes such as total investment and profitability between those who received loans through the program and a comparison group. A suitable method for creating a comparison group is expected to include an element of randomized credit provision. Challenges such as the availability of other donor financing and the potentially limited scope of post-harvest investment in Moldova may dictate amendments to this strategy during the evaluation design phase. Since gaps exist in many countries' financial markets where banks rely on a high level of collateral and equity markets are under-developed, it would be of value for Moldova, MCC, and the donor community to understand the benefits and costs of subsidized lending. A mid-term review will be part of the evaluation plan, and the activity may be terminated or scaled up depending upon the results of this mid-term evaluation.

(3) For the Growing High Value Agriculture Sales Activity, the evaluation is expected to determine how the Activity trainings affect prices, profit margins, and yields. As it is intended that the Growing High Value Agriculture Sales Activity of the Compact would be implemented by USAID, close coordination in the evaluation would be required. MCC and USAID are currently in the process of defining how this coordination would occur and confirming the feasibility of such coordination. Randomized selection criteria are expected to be an element of the evaluation.

(ii) Road Rehabilitation Project.

A rigorous evaluation of the impact of the Road Rehabilitation Project is not envisioned due to the lengthy time of construction and the natural 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-Moldova 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 Project 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.

(i) 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-Moldova 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-Moldova may request special studies or ad hoc evaluations of Projects, Project Activities, or the Program as a whole prior to the expiration of the Compact Term. When MCA-Moldova 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.

(c) Request for Ad Hoc Evaluation or Special Study. If MCA-Moldova 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-Moldova 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 Project 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. Implementation of the M&E Plan.

(a) Approval and Implementation. 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. Upon execution of the Program Implementation Agreement, each CIF Disbursement will be subject to the terms and conditions of the Program Implementation Agreement (including, without limitation, Section 3.3 thereof).

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) Prior to any CIF Disbursement into any Permitted Account in accordance with an approved Disbursement Request, MCA-Moldova 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: GR08MDA10010.

(b) (i) Each Activity being funded by such CIF Disbursement is consistent with the goal of facilitating the 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-Moldova under this Compact, the Program Implementation Agreement, any supplemental agreement, or any Program Guidelines has occurred or is continuing. MCA-Moldova will have delivered to MCC (x) evidence of the adoption and publication of the Establishment Decree, and (y) an up-to-date extract from the state registry verifying that MCA-Moldova is a fully-formed and registered public institution under the laws of Moldova.

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

(d) MCA-Moldova 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.

(e) MCA-Moldova 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.

(f) The Government will have adopted and published a decree, in form and substance satisfactory to MCC, administratively implementing the tax exemption mechanism as set forth in the Compact, and such decree will remain in full force and effect.

(g) The Fiscal Agent will have been duly appointed, and MCA-Moldova 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.

(h) The Procurement Agent will have been duly appointed, and MCA-Moldova 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.

(i) The Bank will have been duly appointed, and MCA-Moldova 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.

(j) The Permitted Account will be established.

2. Conditions to Each CIF Disbursement Thereafter.

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

(a) Prior to any CIF Disbursement into any Permitted Account in accordance with an approved Disbursement Request, MCA-Moldova 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: GR08MDA10010.

(b) (i) Each Activity being funded by such CIF Disbursement is consistent with the goal of facilitating the 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-Moldova under this Compact, the Program Implementation Agreement, any supplemental agreement, or any Program Guidelines has occurred or is continuing; and (iv) any Taxes paid with MCC Funding through the date ninety (90) days prior to the start of the applicable Disbursement Period have been reimbursed by the Government in full in accordance with this Compact.

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

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

(e) Each of the Fiscal Agent Agreement, the MCA-Moldova 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 effect.

(g) The decree administratively implementing the tax exemption mechanism set forth in the Compact will be in full force and effect.

ANNEX V DEFINITIONS

Access to Agricultural Finance Activity has the meaning provided in paragraph 1(a) of Part B of Annex I.

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.

Centralized Irrigation System Rehabilitation Activity has the meaning provided in paragraph 1(a) of Part B of Annex I.

CIF Disbursement has the meaning provided in Annex IV.

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

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 7.4.

Construction Vendor has the meaning provided in Schedule E of Annex VI.

Consultative Group has the meaning provided in paragraph 3(c)(ii)(1) of Part B of Annex I.

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

Customs Code has the meaning provided in Schedule F of Annex VI.

Customs Tariff Law has the meaning provided in Schedule B of Annex VI.

Disbursement has the meaning provided in Section 2.4.

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

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

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

Exempt Employers has the meaning provided in Schedule D of Annex VI.

Exempt Individual has the meaning provided in Schedule D of Annex VI.

Exempt Personal Income has the meaning provided in Schedule D of Annex VI.

Exempt Vendor has the meaning provided in Schedule C of Annex VI.

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

Fiscal Agent has the meaning provided in paragraph 3(e) of Part B of Annex I.

Governance Guidelines has the meaning provided in paragraph 3(c) of Part B of Annex I.

Government has the meaning provided in the Preamble.

Government Decision No. 1140 has the meaning provided in Schedule F of Annex VI.

Growing High Value Agriculture Sales Activity has the meaning provided in paragraph 1(a) of Part B of Annex I.

High Value Agriculture Post-Harvest Credit Facility has the meaning provided in paragraph 1(a)(iii) of Part B of Annex I.

Implementation Letter has the meaning provided in Section 3.5.

Implementing Entity has the meaning provided paragraph 3(d) of Part B of Annex I.

Implementing Entity Agreement has the meaning provided in paragraph 3(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).

Investment Development Services has the meaning provided in paragraph of 1(a)(iii) of Part B of Annex I.

Irrigation Management Transfer Sub-Activity has the meaning provided in paragraph 1(a)(ii) of Part B of Annex I.

Irrigation Sector Reform Activity has the meaning provided in paragraph 1(a) of Part B of Annex I.

Joint Group has the meaning provided in paragraph 2(a) of Part B of Annex I.

M2 has the meaning provided in paragraph 2(a) of Part B of Annex I.

M2 Road Activity has the meaning provided in paragraph 2(a)(i) 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 3(c)(iii)(1) of Part B of Annex I.

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

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

MCA-Moldova Bylaws has the meaning provided in paragraph 3(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 Gender Policy has the meaning provided in paragraph 3 of Part A of Annex I.

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 Website has the meaning provided in Section 2.7.

Moldova has the meaning provided in the Preamble.

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

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

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

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

OMB has the meaning provided in Section 3.8(b).

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

Other Taxes has the meaning provided in Schedule I of Annex VI.

Party and Parties has the meaning provided in the Preamble.

Permitted Account has the meaning provided in Section 2.4.

Personal Income Taxes has the meaning provided in Schedule D of Annex VI.

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

PPP has the meaning provided in paragraph 2(b) of Part B of Annex I.

Principal Representative has the meaning provided in Section 4.2.

Procurement Agent has the meaning provided in paragraph 3(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 Website.

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 Website or otherwise publicly made available.

River Basin Management Sub-Activity has the meaning provided in paragraph 1(a)(ii) of Part B of Annex I.

Road Rehabilitation Project has the meaning provided in paragraph 2(a) in Part B of Annex I.

State Fiscal Inspectorate has the meaning provided in Schedule E of Annex VI.

Steering Committee has the meaning provided in paragraph 3(c)(i)(1) of Part B of Annex I.

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

Target Areas has the meaning provided in Table 1 of Annex III.

Tax Agent has the meaning provided in Schedule I of Annex VI.

Tax Code has the meaning provided in Schedule A of Annex VI.

Taxes has the meaning provided in Section 2.8(a).

Transition to High Value Agriculture Project has the meaning provided in paragraph 1(a) of Part B of Annex I.

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

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

VAT has the meaning provided in Section 2.8(b).

***Vendor** has the meaning provided in Schedule A of Annex VI.*

***Water Law** has the meaning provided in paragraph 1(a)(ii) of Part B of Annex I.*

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

***WUA Law** has the meaning provided in paragraph 1(a)(ii) of Part B of Annex I.*

ANNEX VI
SPECIFIC TAX EXEMPTION MECHANISMS

SCHEDULE A
VALUE ADDED TAX (VAT)

Legal Basis for Exemption.

1. The Compact
2. Article 4, clause (1) of the Tax Code of Moldova (“*Tax Code*”) (Law 1163-XIII, dated April 24, 1997)

Beneficiaries of Exemption.

1. MCA-Moldova.
2. Each Implementing Entity, and any vendor procuring services, goods or works in furtherance of the Compact (each a “*Vendor*”).

Procedures.

The beneficiaries of the exemption will procure services, goods and works exempted from VAT, except the procurement of petroleum products, which is addressed in Schedule E.

Purchase of Goods (Except Imported Goods), Services and Works

In order for the beneficiaries of the exemption to obtain the VAT exemption from suppliers of the goods (except imported goods), services and works supplied in Moldova, the MCA-Moldova must provide the beneficiary of the exemption with an official letter from MCA-Moldova, issued on official letterhead, which will confirm that such goods, services or works are exempted from VAT, and which will contain the name of the project and the name of the beneficiary of the exemption.

This letter will be attached to the applicable provider’s invoice or waybill (“*factura*”). The *factura* will serve as strict evidence of delivery of the goods, provision of services or rendering of works. The “*factura*” will be countersigned by an authorized representative of the beneficiary of the exemption. An original of the *factura* will be kept by the applicable provider and will be provided in case of inspection by fiscal authorities to show the reason for exemption from VAT.

Imported Goods

For the importation of goods into Moldova, the exemption from VAT will be applicable while clearing the goods for customs. To receive the exemption from VAT, the beneficiary of the exemption will file a request to the customs office supported by:

- a letter from MCA-Moldova, issued on official letterhead, which will confirm that the goods are imported exclusively for the furtherance of

the Compact, the name of the project and the name of the beneficiary of the exemption;

- invoice for the goods;
- copy of the purchase order or contract for the delivery of the applicable goods to be used in furtherance of the Projects;
- transportation documents (CMR, TIR carnet, Airway bill, etc.); and
- certificates, authorizations, licenses, if required by Moldovan laws and regulations for the importation of the goods.

Clearance will be granted by the customs offices with the exemption from VAT based on the submission of the above-mentioned documents

SCHEDULE B

CUSTOMS DUTIES

Legal Basis for Exemption.

1. The Compact
2. Article 28, clause (n), and Article 31 and Note 1 of Annex 2 of the Law on the Customs Tariff (the “*Customs Tariff Law*”) (No. 1380-XIII, dated November 20, 1997)

Beneficiaries of Exemption.

MCA-Moldova, each Implementing Entity, and any Vendor importing goods for the furtherance of the Compact.

Procedures.

Clearance of the imported goods without customs duties will be performed by the customs offices.

In order to obtain clearance for imported goods, the beneficiary of the exemption will submit a request for such goods to be exempted from customs duties, supported by:

- a letter from MCA-Moldova, issued on official letterhead, which will confirm that the goods are imported for the exclusive use of the Compact, and which will contain the name of the project and the name of the beneficiary of the exemption;
- the invoice for the goods;
- a copy of the purchase order or contract for the goods;
- transportation documents (CMR, TIR carnet, Airway bill, etc.); and
- certificates, authorizations, licenses, if required for the importation of goods.

SCHEDULE C
CORPORATE INCOME TAX

Legal Basis for Exemption.

1. The Compact
2. Article 4, clause (1) of the Tax Code

Beneficiaries of Exemption.

1. MCA-Moldova.
2. Each Implementing Entity and any Vendor working in furtherance of the Compact (each an “*Exempt Vendor*”), other than Vendors that are nationals of Moldova.

Procedures.

- MCA-Moldova and all Exempt Vendors will be entitled to an exemption from Moldovan tax on income earned from supplying goods, works or services in furtherance of the Compact.
- MCA-Moldova will not be required to withhold tax from payments made to an Exempt Vendor.
- The Exempt Vendor will not file any tax returns in Moldova for income earned from supplies of goods, works and services in furtherance of the Compact. In the event that an Exempt Vendor will earn taxable income from Moldovan sources other than from Compact-related activities, then such income will be recorded and accounted for by the Exempt Vendor separately from the income from Compact-related activities and will be outside the scope of the tax exemptions provided under this Compact.

SCHEDULE D
INDIVIDUAL INCOME TAX

Legal Basis for Exemption.

1. The Compact
2. Article 4, clause (1) of the Tax Code

Beneficiaries of Exemption.

All natural persons working in furtherance of the Compact (each “*Exempt Individual*”), other than nationals of Moldova. Non-Moldovan nationals working in furtherance of the Compact who, after passage of time, become Moldovan “tax residents” for the purposes of Moldovan tax law will also be deemed Exempt Individuals.

Procedures.

- The Exempt Individuals will be exempt from any income, social security, medical insurance or other mandatory taxes and charges imposed by Moldova or any subdivision thereof, regarding personal income (the “*Personal Income Taxes*”) received in connection with income earned from works and services performed in furtherance of the Compact (the “*Exempt Personal Income*”).
- MCA-Moldova, the Implementing Entities, the Fiscal Agent and the Procurement Agent and any other Vendor who employs Exempt Individuals (the “*Exempt Employers*”) will not withhold or pay Personal Income Taxes for the Exempt Individuals.
- The Exempt Individual will have no obligation to file an income tax return in Moldova in relation to Exempt Personal Income.
- The Exempt Employers will have no obligation under Moldovan law in connection with the completion of any mandatory filings, registrations and periodic reporting in relation to the Exempt Personal Income of the Exempt Individuals.

SCHEDULE E
TAXATION OF PETROLEUM PRODUCTS

Legal Basis for Exemption.

1. The Compact
2. Article 4, clause (1) of the Tax Code

Beneficiaries of Exemption.

Vendors providing construction services to MCA-Moldova or another Vendor making large-scale procurements of petroleum products for use in connection with such construction projects (a “*Construction Vendor*”).

Procedures.

A Construction Vendor procuring and/or importing petroleum products to be used for the Compact Program will pay the VAT and excise duties at the point of purchase and request a refund of these taxes.

In order to receive such refund, a Construction Vendor should submit to State Fiscal Inspectorate under the Ministry of Finance of Moldova (the “*State Fiscal Inspectorate*”) the following documents:

- an official letter from MCA-Moldova, issued on official letterhead, which will confirm the quantity/volume of petroleum products specified in such Construction Vendor’s bid for a program contract, and which will contain the name of the construction project and the name of the beneficiary of the exemption;
- an official request issued by the Construction Vendor requesting that the State Fiscal Inspectorate refund VAT and excise-duty paid, certifying (i) the maximum quantity/volume of petroleum products specified in the beneficiary of the exemption’s bid proposal for a Program contract (which amount will be the maximum allowable quantity subject to reimbursement), (ii) the quantity of petroleum products subject to reimbursement in the pending request, (iii) the quantity of petroleum products for which VAT and excise duties have been previously reimbursed to the beneficiary of the exemption under such contract, and (iv) that the petroleum products in the present request were used in connection with the named construction project; and
- the original fiscal invoice received from the supplier of the petroleum products, while procuring them in the territory of Moldova and/or

customs declaration issued in the name of the Construction Vendor, while importing the petroleum products into Moldova.

The above-mentioned documents will be submitted to State Fiscal Inspectorate on a monthly basis for the petroleum purchases made during the previous calendar month.

The amount of VAT and excise-duties subject to refund should be determined by the Construction Vendors and confirmed by the State Fiscal Inspectorate based on the amounts the VAT and excise-duties paid at the moment of procuring of the petroleum products and indicated in the fiscal invoice(s) and/or customs declaration(s) and according to the excise duty rates then applicable.

The amount of the VAT and excise-duties should be transferred to the bank account(s) of the Vendors opened in the banks, who have fiscal relations with budgetary system of Moldova. The decision on refund of these taxes will be taken by the State Fiscal Inspectorate within 45 days after receiving by the State Fiscal Inspectorate of the request.

SCHEDULE F
**TEMPORARY ADMISSION OF EQUIPMENT, VEHICLES, AND HOUSEHOLD
GOODS**

Legal Basis for Exemption.

1. The Compact
2. Articles 7 and 68 of the Customs Code of Moldova (the “*Customs Code*”) (Law No. 1149-XIV, dated July 20, 2000)
3. Article 4, clause (1), Article 103, clause (2), sub-clause (c) of the Tax Code
4. Article 28, clause (f) of the Customs Tariff Law (Law No. 1380-XIII, dated November 20, 1997)
5. Article 5, clause (3) and Article 7 of the Law on the Manner of Introduction into the Territory of the Republic of Moldova and Re-export of Goods by Individuals (Law No. 1569-XV dated December 20, 2002)
6. Chapter 7, Annex 1 of the Governmental Decision approving the regulation on implementation of the customs procedures, established by the Customs Code, No. 1140 (“*Government Decision No. 1140*”) dated November 2, 2005

Beneficiaries of Exemption.

MCA-Moldova, any Implementing Entity, and any Vendor importing goods on a temporary basis to be used exclusively in furtherance of the Compact; as well as any Exempt Individual importing equipment, vehicles, and household goods for personal use.

Procedures.

The temporary admission of equipment, vehicles, and household goods is granted by the customs office, without payment of VAT, customs duties, excise duties, customs procedure taxes, or any other Taxes, based on the request submitted by the beneficiary of the exemption. The request should provide the reasons for the temporary admission of the items in accordance with Government Decision No. 1140 and be supported by:

- a letter from MCA-Moldova, issued on official letterhead, which will confirm that the goods are temporarily imported for the exclusive use of the Compact or for the personal use of the Exempt Individual, and which will contain the name of the project and the name of the beneficiary of the exemption;

- an invoice for the goods, if applicable;
- a copy of the contract supporting the temporary admission of the goods, if applicable;
- transportation documents (CMR, TIR carnet, Airway bill, etc.), if applicable; and
- certificates, authorizations, licenses, if required for the importation of goods.

Authorization for temporary admission, with the above-mentioned exemptions, will be granted by the customs offices based on the submission of the above-mentioned documents.

Upon receipt of customs authorization, the beneficiary of the exemption will cause the customs declaration to be prepared for submission to the customs office, whereupon the customs office will clear the goods without payment of VAT, customs duties, excise duties, customs procedure taxes, or any other Taxes.

If the imported goods are owned by the beneficiary of the exemption, the above-mentioned invoices and contracts will not be required.

SCHEDULE G EXCISE DUTY

Legal Basis for Exemption.

1. The Compact
2. Article 4, clause (1), Article 124, clause (2), sub-clause (b) and Article 124, clause (3) of the Tax Code

Beneficiaries of Exemption.

MCA-Moldova, any Implementing Entity, and any Vendors.

Procedures.

The exemption is applicable only when importing goods in furtherance of the implementation of the Compact, which are subject to excise duties, except the procurement of petroleum products, which is addressed in Schedule E. The exemption is granted together with the exemptions from VAT and customs duties. In order to get the goods cleared, the beneficiary of the exemption will submit a request for exemption, supported by:

- a letter from MCA-Moldova, issued on official letterhead, which will confirm that the goods are imported for the exclusive use of the Compact, and which will contain the name of the project and the name of the beneficiary of the exemption;
- the invoice for the goods;
- a copy of the purchase order or contract for the goods;
- transportation documents (CMR, TIR carnet, Airway bill, etc.); and
- certificates, authorizations, licenses, if required for the importation of goods.

Clearance will be granted by the customs offices with the exemption of the excise duties based on the submission of the above-mentioned documents.

SCHEDULE H
CUSTOMS PROCEDURE TAX

Legal Basis for Exemption.

1. The Compact
2. Article 7 of the Customs Code (Law No. 1149-XIV dated July 20, 2000)
3. Annex 2 of the Customs Tariff Law (No. 1380-XIII, dated November 20, 1997)

Beneficiaries of Exemption.

MCA-Moldova, each Implementing Entity, any Vendor importing goods for use in furtherance of the Compact, as well as any Exempt Individual importing goods for personal use.

Procedures.

Clearance of the imported goods without customs procedure tax will be done by the customs offices. In order to obtain clearance for imported goods, the beneficiaries of the exemption will submit a request for such goods to be exempted from customs procedure taxes, supported by:

- a letter from MCA-Moldova, issued on official letterhead, which will confirm that the goods are imported for the exclusive use of the Compact, and which will contain the name of the project and the name of the beneficiary of the exemption;
- the invoice for the goods;
- a copy of the purchase order or contract for the goods;
- transportation documents (CMR, TIR carnet, Airway bill, etc.), if applicable; and
- certificates, authorizations, licenses, if required for the importation of goods.

If the imported goods are owned by the beneficiary of the exemption, the above-mentioned invoices and contracts will not be required.

Clearance will be granted by the customs offices with the exemption from the customs procedures tax based on the submission of the above-mentioned documents.

SCHEDULE I OTHER TAXES

Legal Basis for Exemption.

1. The Compact
2. Article 4, clause (1) of the Tax Code

Beneficiaries of Exemption.

Any of MCA-Moldova, the Implementing Entities, and Vendors; as well as any Exempt Individual, importing or acquiring property or otherwise performing an act or action within the scope of the Compact that triggers payment of any tax included in the Tax Code, other than those addressed in Schedules A through Schedule H above (the “***Other Taxes***”).

Procedures.

- Whereas the Other Taxes may be chargeable not only by the tax offices, but also by third parties as agents of the tax offices (the “***Tax Agent***”), any beneficiary of exemption will require an official letter from MCA-Moldova for the purposes of filing it with the tax office or the Tax Agent in order to justify the claimed exemption of the relevant Other Tax.
- The official letter from MCA-Moldova is issued on official letterhead, which will confirm that the event that triggers payment of any Other Tax is within the scope of the Compact, and which contains the name of the project and the name of the beneficiary of the exemption.
- The Government will ensure that the Government actions implementing the exemptions covered by the Compact will address the procedures applicable to Other Taxes.