

Moldova and MCC: A Partnership for Growing Opportunities

The Millennium Challenge Corporation's Board of Directors approved a five-year, \$262 million MCC Compact with the Moldovan government aimed at reducing poverty and accelerating economic growth. The compact focuses on irrigation sector reform, the reconstruction of irrigation systems, access to agricultural finance, and related capacity building and training activities, as well as the rehabilitation of a section of the country's national road network.

Background

Moldova is a low income country, the poorest country in Europe. Agriculture has long been the country's economic foundation. Farming accounts for more than 40 percent of employment and 17 percent of the country's gross domestic product. Moldova's agriculture currently suffers from low productivity, contributing to high rates of rural poverty. In addition, the deteriorated quality of Moldova's roads has been cited as a constraint to economic growth, as it raises the costs of internal and external production and trade.

Transition to High Value Agriculture Project (\$101.77 million)

The objective of the Transition to High Value Agriculture Project is to increase agricultural incomes by stimulating the production and improved marketing of high value fruit and vegetables. The project primarily targets farming communities located along the two major rivers, the Prut to the west and the Nistru to the east, but will also benefit areas of the country already able to access irrigation water and produce high value agriculture.

Under the project, Moldova's MCC Compact funding will repair up to 11 large irrigation systems servicing 15,500 hectares, providing water for high value fruits and vegetables as well as higher yielding grain production. Technical assistance and capacity building will support the establishment of water user organizations able to manage and operate the rehabilitated irrigation systems; the legal transfer of responsibilities for operations and maintenance of repaired irrigation systems to water user organizations; improve water resource management by the government; and ensure the legal and institutional framework needed for irrigation sector sustainability and further private and donor investment.

Financing facilities and technical assistance will support high value agriculture-related investments by farmers and entrepreneurs. As part of an activity undertaken jointly with the United States Agency for International Development, technical assistance will also help improve market access and support the shift to high value agriculture at the production and post-harvest level.

Road Rehabilitation Project (\$132.84 million)

The Road Rehabilitation Project includes repairs to a section of an arterial highway between the Moldovan capital, Chisinau, to the Ukrainian border and beyond to Kyiv, the Ukrainian capital. The section to be rehabilitated comprises 93 kilometers of the M2 and R7 roads between Sarateni to a juncture north of the city of Soroca. This highway is a link between the two countries for private, passenger and commercial travel, and a significant link for internal commerce and trade. The project will reduce the time and cost to transport goods and services and reduce losses to the national economy resulting from deteriorated road conditions.

Administration

The compact includes approximately \$23.85 million for administrative and oversight costs of the projects, including the cost of administration, management, and auditing as well as fiscal and procurement agent services and environmental and social oversight. The cost of monitoring and evaluation of the compact is budgeted at \$3.54 million.

Expected Results

Economic analyses indicate that:

- ★ The Transition to High Value Agriculture Project will entail an economic rate of return of approximately 12.7 percent and increase the incomes of approximately 32,000 households (or approximately 124,000 individuals), with an average total benefit over 20 years equal to 170 percent of the beneficiaries' current annual income.
- ★ The Road Rehabilitation Project will have an economic rate of return of approximately 19 percent and benefit a population of approximately 78,000 households (or approximately 302,000 beneficiaries), over the next 20 years.