



Millennium Challenge Account

COMPACT Assistance Program

Chisinau, June 26th 2007



Millennium Challenge Corporation

- Founded by US Government in 2004 as independent governmental corporation
- Global task: Poverty Reduction through Economic Growth
- Offers grants to eligible countries in the framework of COMPACT programs
- 25 countries are eligible for COMPACT assistance at the moment
- Programs are developed by eligible countries and target the elimination of binding barriers to economic growth
- Program implementation – up to 5 years



Cooperation between Moldova and Millennium Challenge Corporation

- **Cooperation within the Threshold Program:**

1. Selection of Moldova as participant at the Threshold Program – November 8th 2005
2. Signing of Threshold Program agreement between Moldova and Millennium Challenge Corporation – December 15th 2006

- **Cooperation within the full COMPACT Program:**

1. Accepting Moldova as a country eligible for COMPACT assistance – November 8th 2006
2. Visit of Millennium Challenge Corporation team in Moldova – January 2007
3. Establishment of National Monitoring Committee and designation of National Coordinator – Government Decision Nr. 413 from April 17th 2007
4. Development of Constraints and Sector Analysis: April 20th-June 20th 2007



Philosophy and Principles of Corporation Financing

- Economic growth is key instrument in reducing poverty
- Amount of financing is determined basing on the economic quality of proposed programs and expected economic outcome
- Global impact on country's income level and Economic Return Rate of investments are main success indicators of proposed programs
- Concentration on a small number (2-3) of large programs targeting at complete alleviation of certain obstacles to economic growth



Main Condition for Acceptance of Moldova's Proposal by the Corporation

- Successful implementation of the Threshold Program
- Improvement or maintenance of country's evaluation indicators in following areas (as recorded in November 2006):
 - Good governance and fighting corruption
 - Investment in people
 - Economic freedom
 - Management of natural resources
- Evaluation indicators are monitored by third party organizations and reported to the Corporation



Development of the COMPACT Proposal – Tasks for Moldova

1. Develop the Constraints Analysis with purpose to identify binding constraints to economic growth
2. Develop the Sector Analysis with purpose to evaluate situation and perspectives of most promising sectors and sub-sectors of the national economy
3. Organize the Consultative Process targeting the information dissemination and capturing the opinions and necessities of civil society
4. Identify the components of the future COMPACT program, develop economic analysis and feasibility studies, argument the proposals
5. Submit the country proposal to the Millennium Challenge Corporation




Analysis of the COMPACT Proposal – Activities of Corporation

1. Millennium Challenge Corporation carefully checks the quality and content of country's work
2. The Corporation independently estimates the expected economic outcome (Economic Return Rate), social and environment risks, alternative solutions
3. Corporation checks the quality of the public consultation process
4. If the COMPACT proposal corresponds to quality requirements, it is negotiated and agreed between the Government of Moldova and Millennium Challenge Corporation
5. Necessary finances are reserved in a special fund



Quality Requirements towards a COMPACT Proposal

- Development of proposal after duly completion of Constraints and Sector Analysis
- Establishment of specific and clear tasks and beneficiaries for each stage of proposal implementation
- Proof of inclusive economic growth stemming from program implementation, with measurable impact indicators
- Coordination of activities with other donors and synergy of efforts
- Transparency and public coverage of all activities during the proposal development



Constraints Analysis as Precondition of COMPACT Proposal Development

Global task – identify main reasons of low economic performance of the country

Stages:

- Accumulation and generalization of available reports and knowledge on the causes of low rate of country's economic growth
- Formulation of a large set of problems and deficiencies faced by the country in its development
- Conducting own economic research and testing of preliminary results
- Identification of a restricted number (1-3) of BINDING constraints to the economic growth



Work Agenda

- **Stage 1:** development of Constraints and Sector Analysis (completed)
- **Stage 2:** consultation of opinions and visions of civil society concerning identified constraints and potential components of the future COMPACT proposal
- **Stage 3:** development of the COMPACT proposal:
 1. Identification of program's components and beneficiaries
 2. Development of Evaluation and Monitoring Plan
 3. Development of necessary economic analysis, feasibility studies and cost-benefit analysis for program components
 4. Estimation of financing requirements



Preliminary Conclusions of Constraints Analysis

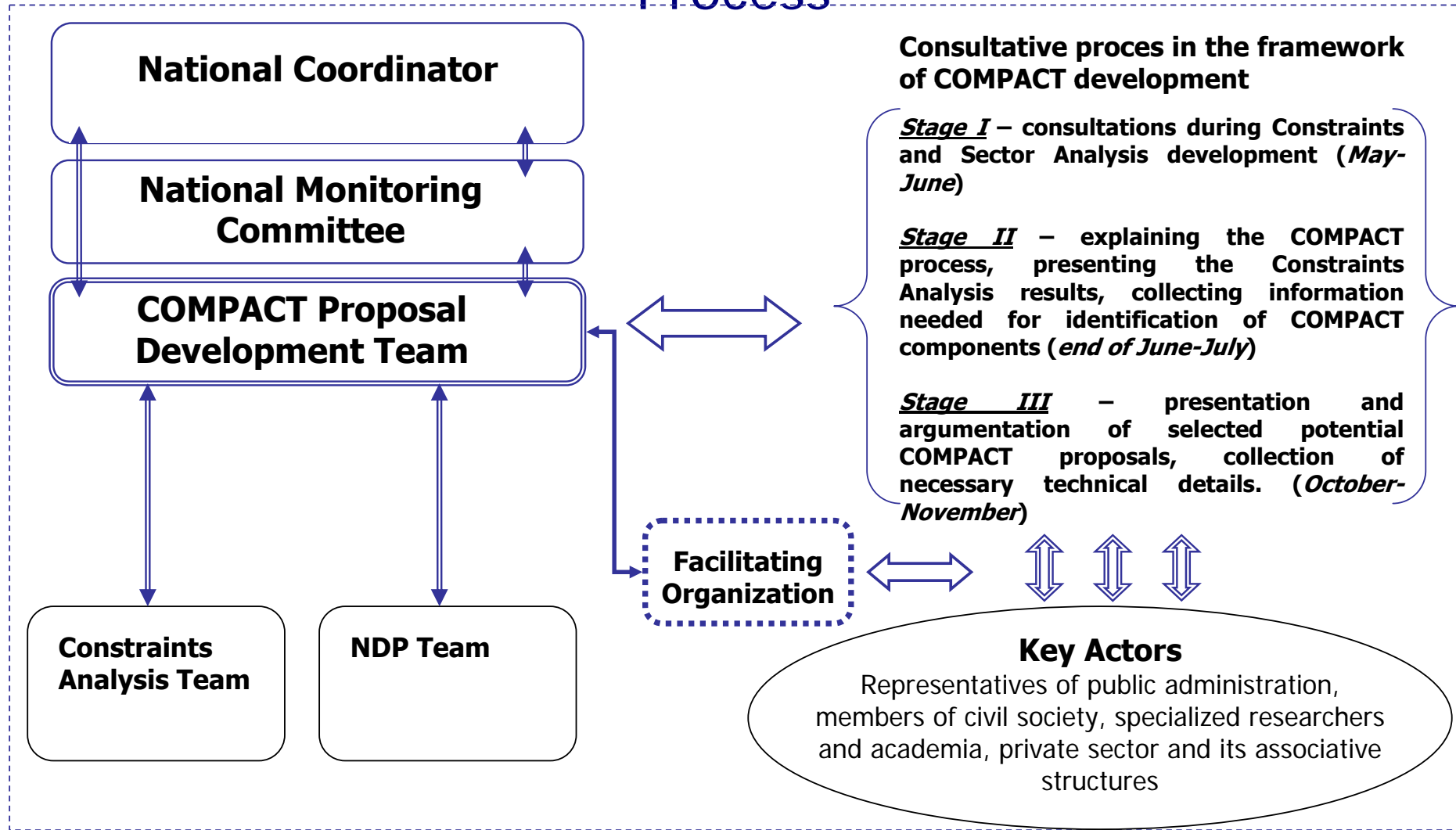
Areas where obstacles to economic growth have been identified:

1. Macroeconomic risks
2. Access to finance
3. Innovations
4. Infrastructure
5. Investment climate
6. Human capital
7. Natural endowment

Areas where BINDING constraints have been identified:

1. Infrastructure
2. Macroeconomic risks (inflation and vulnerability to external shocks)
3. Investment climate (authorization of activities, rigidity of labor and lack of trust in justice)

Institutional Arrangements and Consultative Process





Media Coverage of Activities

Channels and Instruments for better media coverage of COMPACT development process:

- **Web site**, reflecting activities in the framework of COMPACT development and offering possibilities to express views and opinions
- **Mass media** (radio, TV, press)



Conditions for Attaining Success

- Fulfillment of the preconditions and following of the principles and philosophy behind the Corporation financing
- Presentation of a proposal of sound financial, technical and social quality
- Proof of sound economic growth as result of COMPACT implementation, with specific measurable indicators
- Assurance of clear and transparent COMPACT proposal development and implementation
- Cooperation with other donors and effort coordination during the proposal development and implementation
- Continuous consultations during the proposal development and implementation



Information and Contacts

Useful information:

Millennium Challenge Corporation website:

www.mcc.gov

COMPACT program site in Moldova:

www.mca.gov.md

Contacts:

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Annex 1 Stages of COMPACT Development

