

Minutes No. 25

**MCA-Armenia Governing Council Session
15:00, December 18, 2007
GoA Conference Room**

The session was chaired by H.E. Mr. Serge Sargsyan, the Prime Minister of the Republic of Armenia and the Chairman of the MCA-Armenia Governing Council.

In attendance:

Members of Governing Council:

Hovik Abrahamyan	Deputy Prime Minister, Minister of Territorial Administration
Andranik Manukyan	Minister of Transport and Communication
Vardan Khachatryan	Minister of Finance and Economy
David Lokyan	Minister of Agriculture
Arayik Hovhannisyan	“Association of Municipal Councilors of Armenia” NGO
Vanik Soghomonyan	“National Union of Farmers” NGO
Karen Nazaryan	“Armenian Inter-Church Round Table” NGO
Hrachik Javadyan	“Applied Research and Agribusiness Foundation” NGO
Ashot Voskanyan	“Agricultural development” NGO

GC observers:

Karine Danielyan	Environmental observer, “Association for Sustainable Human Development” NGO
Myron Hirniaik	MCC Resident Deputy Country Director, MCC - Armenia

In absence of:

Member of Governing Council:

Vahram Nercissyantz	Chief Economic Advisor to President of Armenia
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Invitees:

David Avetisyan	Deputy Minister of Finance and Economy
Andranik Andreatsyan	Chairman of State Water Committee, Ministry of Territorial Administration

In attendance of:

Ara Hovsepyan	CEO, MCA-Armenia SNCO
Nazeli Vardanyan	Deputy CEO, MCA-Armenia SNCO
Nora Martirosyan	GC Secretary / Legal Counsel, MCA-Armenia

Gayane Harutyunyan	Program Assistant, MCC-Armenia
Shushanik Aghababyan	Interpreter for MCC DRCD Myron Hirniak
Levon Martirosyan	Assistant to Prime Minister
Simon Ghonakhchyan	Head of the Economic Department, Government Staff
Mary Harutyunyan	Head of Public Relations Department, Government Staff
Hovhannes Sahakyan	Senior Specialist, Economic Department, Government Staff

The meeting was opened by Mr. Serge Sargsyan, the Prime Minister of the Republic of Armenia and the Chairman of the MCA-Armenia Governing Council (GC), noting that it was the final meeting in 2007. The Prime Minister congratulated all those present with the coming New Year holidays, wishing a fruitful and productive year in all aspects, especially, for the implementation of MCA program.

Prime Minister Serge Sargsyan suggested summarizing the work done during the past one year. His assessment of the work was positive and one of high importance, in particular, from the following four points of view:

- First of all, a substantial amount of funds has been allocated for the implementation of MCA-Armenia program which will significantly affect country's development;
- Secondly, the problems of the rural areas are being tackled and resolved in the framework of the program which is in harmony and goes in parallel with the state policy aimed at equal development of all areas in country;
- Third, the program is not only of economic importance, but also has a significant political and rating weight. The eligibility criteria is tough and does not allow any state in the world to become MCC Compact implementation country but only those countries that have reached a certain level of development to make it MCC program eligible. The fact that Armenia is among the latter list attests that our country develops in the right course of time and the path of development is similar to a number of other progressive states.
- Fourth, the MCA program enables an import into Armenia of new work culture, in particular, regarding such areas as program management and implementation, as well as in the procurement methods and processes.

The Prime Minister summarized the works carried out during past year. In particular, he mentioned that the preparatory, investigatory and partly the design stages have been successfully completed and the works on the ground have already been launched enabling the people to see the real work and already some results. It is also important that new directions of further co-operation have been outlined. The MCC has recently reviewed and approved Armenia's participation in the program for 2008 which means that the economy is developing well. During his official visit to Washington, the Prime Minister Serge Sargsyan and MCC CEO Ambassador John Danilovich discussed the possibility of the second MCC Compact with Armenia. In addition, the Prime Minister mentioned that we were ready for new challenges since Armenia had formally been enlisted in the range of Lower Middle Income Countries which puts stricter requirements and demands on countries to perform better.

The Prime Minister refused to speak about the shortcomings noting, however, that it did not mean there were no problems or shortcomings. It is far better to address those problems in

practice rather than constantly and loudly speak about them. In contrast, achievements and successes should be openly promoted without being shy about them.

Minister Lokyan added that there were people in rural communities who had already become direct beneficiaries of the MCA significantly increasing their income levels. The Minister suggested making the information about this available to the GC members at the next session. RA Prime Minister Serge Sargsyan added that it is necessary to cooperate with the mass media regarding the above mentioned.

After finalizing the achievements of the program, the GC Chairman, Prime Minister Serge Sargsyan turned to the agenda of the meeting.

The following issues were included in the Agenda:

1. Discussion and approval of the Sixth Disbursement Request with the supplementary documents (DR package attached)
2. Discussion and approval of the Standard Request for Proposals for Consulting Services (reference and Standard RFP attached)
3. Discussion and approval of the results of combined technical-financial evaluation for Consulting Services for “Construction supervision (Package 1)” under the MCA-Armenia Rural Roads Rehabilitation Project (reference attached).
4. Discussion and approval of the Bidding Documents for Rehabilitation Works provided in Lots 1-6, RRRP-CW-03/2007 under the MCA-Armenia Rural Roads Rehabilitation Project.
5. Discussion and approval of the Draft Contract with Audit company for the MCA-Armenia program audit (reference and the contract are attached).
6. Discussion and approval of the Draft Contract with the MCA-Armenia Fiscal Agent (reference and contract attached).
7. Discussion and approval of the Draft Contract for the Final Design and Construction Supervision for Construction of 8 Gravity Irrigation Systems under Infrastructure Activity of the MCA-Armenia Irrigated Agriculture Project (reference and contract attached).
8. Discussion and approval of the shortlist of individual consultants for Technical Audit of the construction contracts of the Package I Roads under the MCA-Armenia Rural Roads Rehabilitation Project (reference attached).
9. Other issues.
 - a) Discussion and approval of Amendment to the Implementing Entity Agreement signed between MCA-Armenia and the National Statistical Service;
 - b) Discussion and approval of combined technical and financial evaluation of Consulting Services tender WM/IS-06/005 for “Institutional strengthening of irrigation management companies”

under the MCA-Armenia IAP Water-to-Market Activity

The agenda was approved unanimously.

In relation to the Agenda Item 1, it was unanimously decided to approve the Sixth Disbursement Request and the supplementary documents as attached and to submit to the MCC.

In relation to the Agenda Item 2, the Minister of Finance and Economy Mr. Vardan Khachatryan took the floor and mentioned that the AMD/USD currency fluctuation risk cannot be put and covered from the State Budget funds of the Republic of Armenia. The Minister proposed three alternative solutions:

- First, after execution of any given contract under MCA-Armenia, to request and receive the whole committed amount of the contract from the MCC, convert it into AMD using the current exchange rate and keep the amount untouched on a Special Account administered by MCA-Armenia.
- Second, on annual basis, to transfer, as much as needed, the MCC quarterly disbursed funds to RA Treasury Account in the Central Bank, convert the amount into AMD using the State Budget conversion rate for a given fiscal year and then transfer back the converted amount in AMD to the MCA-Armenia Permitted account in the commercial bank. In this case, the state budget will still face losses but those would be smaller and could be covered from the State budget funds.
- Third, an alternative used by the World Bank, to calculate and reduce appropriately the scope of works and allocate 8-10% of the amount as a special reserve fund within the program.

Prime Minister Serge Sargsyan mentioned that in case of Lincy Foundation program the provision of resources from the State budget was compulsory. Such approach as was practiced in Lincy program was not possible also, and most importantly, for another major reason. In fact, the right for final decisions in the framework of the MCA-Armenia program belongs to MCC, which indirectly leads to a situation where MCC might end up deciding how the State Budget funds should be spent.

Summarizing a long discussion, the Prime Minister proposed to discuss two alternatives with MCC: (i) Converting the funds into AMD through the State budget, benefitting from the ghir ExR terms for a given year, and (ii) to find and allocate a special reserve fund within the program.

MCA-Armenia CEO Ara Hovsepyan asked whether the proposed formula by the MCC was acceptable to the GC. PM Serge Sargsyan replied that the formula proposed was definitely unacceptable because if it were adopted it would in effect mean that either the Government recognized there would not be AMD/USD currency rate fluctuation in Armenia or it would artificially lead to a situation whereby contractors might face bankruptcy.

Ara Hovsepyan took the floor again to clarify that MCC objected to the Standard RFP/BD and proposed to put the risk on the contractor on the grounds that if such rules were defined and made known to the bidders from the beginning, they would be able to calculate their risk and include it in their bid price.

The Prime Minister stated that it is the duty of the Government to take care of the local companies and the business environment they operate. The contractors may act unreasonably leading to bankruptcies, whereas the Government of Armenia aims at and is willing to have a competitive market. Besides, the MCC proposed way may also lead to artificial increase of bids and prices. The Prime Minister mentioned that even in this case - higher bids and contract prices - MCC is not benefitting at all since higher prices for individual contracts will deplete even more the scarce resources needed for implementation of MCA projects. From this point of view, it would be much more reasonable to have a special reserve fund like the World Bank projects.

Arayik Hovhannisyan, GC member, stated that in order to avoid misinterpreting by mass media, it is necessary to affirm that in spite of all circumstances all activities envisaged by MCA-Armenia program will be implemented, be it with MCC funds or from the State Budget funds of the Republic of Armenia.

The Prime Minister Serge Sargsyan confirmed the remark by Arayik Hovhannisyan.

As a result, it was unanimously decided to instruct the MCA-Armenia SNCO to discuss with the MCC the two proposed alternatives to solve the issue and report back on the results to the GC.

In relation to the Agenda Item 3, it was unanimously decided to approve results of combined technical-financial evaluation for Consulting Services for “Construction supervision (Package 1)” within Rural Roads Rehabilitation Project of the Millennium Challenge Account – Armenia Program

In relation to the Agenda Item 4, Mr. Andranik Manukyan, Minister of Transport and Communication, took the floor to make a suggestion. He pointed out that the pre-qualification criteria requirements presented in the package referring to implemented construction works carried out during last five years are very high, which may reduce the list of participating companies. That was why he suggested the requirements to be reduced.

The Prime Minister asked the MCA-Armenia CEO about calculation principles and if it was possible to reduce the requirements.

Ara Hovsepyan stated that the Armenian Roads Directorate, MCA Implementing Entity, did the calculations in compliance with commonly practiced rules and methodology, however the possibility of reduction is not excluded.

The Prime Minister suggested to determine such criteria in order to ensure participation of at least 3-4 companies.

The Minister of Transport and Communication suggested then to reduce the scale of liquidity assets determined for participating companies. The Minister also pointed out that in bidding documents it is noted that the official language of tender is English. He suggested determining also Armenian language.

The Prime Minister noted that translation of such kind of documents required additional expenses which was not preferable.

David Lokyan, Minister of Agriculture of RA noted that in case the submitted scale is not reduced only two companies would win all lots.

Ara Hovsepyan asked GC members whether they agree that putting high participation requirements might attract and foster the involvement of international companies in the bids.

The Prime Minister was doubtful that such amount would attract serious international companies, if only because shipment of engineering equipment was rather expensive.

Minister Vardan Khachatryan suggested to leave the criteria unchanged in order to give opportunity only to highly qualified organizations, including internationals, to bid. The Prime Minister objected noting that until now neither of the international companies were interested in the announced tenders.

As a result of discussions, it was unanimously decided to approve the Package I (Lots 1-6) Roads RRRP-CW-03/2007 bidding documents, with a condition that MCA-Armenia SNCO would discuss the above proposals with the Ministry of Transport and Communication and inform the GC members of the results.

In relation to the Agenda Item 5, it was unanimously decided to approve of the Draft Contract with Audit company for Audit of the Millennium Challenge Account-Armenia S.N.C.O

In relation to the Agenda Item 6, Mr. Ashot Voskanyan, GC member, raised several questions. He pointed out that in the contract, which was going to be signed with the fiscal agent, number of reports had been stipulated as mandatory deliverables by the fiscal agent but it was not mentioned who would evaluate them.

The Prime Minister of the Republic of Armenia clarified that it the fiscal agent's work would be best seen from the results of the MCA-Armenia audit. Ara Hovsepyan added that evaluation results of fiscal agent activity implementation is seen in annual audit report and in MCC inspector-general's comments.

Ashot Voskanyan suggested presenting Fiscal Agent's activity reports on annual basis since its activities are of crucial importance for the program. Ara Hovsepyan suggested formally recording by the GC minutes of the need to present to the GC for information (on annual basis) the results of the work of the Fiscal Agent. The Prime Minister agreed.

As a result of discussions, it was unanimously decided to approve draft of MCA-Armenia Fiscal Agent contract, which was going to be sent to MCC for No Objection and then signed.

In relation to the Agenda Item 7, Mr. Arayik Hovhannisyan expressed concern that contract will last 52 months during which exchange rate risk of AMD/USD may occur. Ara Hovsepyan

clarified that the mentioned issue will be regulated also in this contract after final agreement with MCC concerning the standard RFP / BD.

The Prime Minister suggested solving the currency issue problem in the standard RFP/BD and reflect the final decision accordingly in this contract before signing it.

After clarifications, it was unanimously decided to approve the Draft Contract for “Final design and Construction Supervision of 8 Irrigation Gravity Systems” of Infrastructure activity under the MCA-Armenia Irrigated Agricultural Project, with a condition that the final decision regarding the standard RFP / BD would be also reflected in the Contract.

In relation to the Agenda Item 8, it was unanimously decided to approve the short list of individual consultants for Technical Audit of the construction contracts of the Package one within Rural Roads Rehabilitation Project of the Millennium Challenge Account – Armenia Program.

In relation to the Agenda Item 9, Mr. Simon Ghonakhchyan, Head of the Economic Department of the Government Staff, raised a question about point (a). He noted that the reference related to the presented issue mentioned a certain clause about USD depreciation that should have been taken into account. He expressed his concern that the clause in actual fact attempts to give a prediction about the currency depreciation.

Ara Hovsepyan agreed that the clause should have been taken out and that the MCA-Armenia SNCO would skip out the clarification stipulated at the end of the reference.

After clarification, it was unanimously decided to approve Amendments in the Implementing Entity agreement signed between MCA-Armenia SNCO and the NSS.

Before referring to the **point (b) of Agenda Item 9**, in order to avoid direct conflict of interest, GC member Mr. Hrachik Javadyan left the meeting room.

Related to that issue Minister Lokyan raised a question. He asked to clarify if the price offer submitted by the company that won the tender would allow full implementation of the program and whether there was a strong capacity to do the required work.

Ara Hovsepyan clarified that according to MCA-Armenia calculations the unit price of the Institutional Strengthening works almost matched the submitted bid by the winning company. He mentioned that he would think the third companies’ bid seemed inflated rather than the realistic nature of the winning price.

After clarifications, it was decided (9 pro, no con, no abstained) to approve the results of combined technical and financial evaluation of Consulting Services tender WM/IS-06/005 for “Institutional strengthening of irrigation management companies” within the frames of Water-to-Market activity of the MCA-Armenia Irrigated Agriculture Project.

Having all the agenda items expired, the meeting was adjourned.

MCA-Armenia Governing Council Chairman
RA Prime Minister

SERGE SARGSYAN

The minutes were taken by:

Nora Martirosyan

*GC Secretary / Legal
Counsel,
MCA-Armenia SNCO*