

Contains Procurement Related Confidential Information

Minutes No. 26

**MCA-Armenia Governing Council Session
12:00, February 7, 2008
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 of:

Members of Governing Council:

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| Vahram Nercissyantz | Deputy Chairman of the MCA-Armenia SNCO Governing Council, Chief Economic Advisor to President of Armenia |
| Vardan Khachatryan | Minister of Finance and Economy |
| Andranik Manukyan | Minister of Transport and Communication |
| Arayik Hovhannisyann | President of “Association of Municipal Councilors of Armenia” NGO |
| Vanik Soghomonyan | President of “National Union of Farmers” NGO |
| Ashot Voskanyan | President of “Agricultural development” NGO |
| Hrachik Javadyan | Executive Director of “Applied Research and Agribusiness Foundation” NGO |
| Tsovinar Ghazaryan | Authorized representative of GC member Karen Nazaryan, Executive Director of “Armenian Inter-Church Round Table” NGO |

GC observers:

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| Karine Danielyan | Environmental observer of Millennium Challenge Account-Armenia SNCO, President of “Association for Sustainable Human Development” NGO |
| Alex Russin | MCC Resident Country Director, MCC - Armenia |

In absence of:

Member of Governing Council:

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| Hovik Abrahamyan | Deputy Prime Minister, Minister of Territorial Administration |
| David Lokyan | Minister of Agriculture |

Invitees:

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

In attendance of:

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| Ara Hovsepyan | CEO, MCA-Armenia SNCO |
| Nazeli Vardanyan | Deputy CEO, MCA-Armenia SNCO |

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| Nora Martirosyan | Legal Counsel /, GC Secretary MCA-Armenia |
| 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 |
| Gayane Harutyunyan | Program Assistant, MCC-Armenia |
| Vahe Mkrtchyan | Interpreter |

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.

The following issues were included in the Agenda:

1. Discussion and approval of the Cancellation note of the Data Quality Reviewer Individual Consultant procurement under Monitoring and Evaluation project of the Millennium Challenge Account – Armenia Program (reference is attached).
2. Discussion and approval of the list of financial institutions accredited for participation at the Water-to-Market credit program under Water-to-Market Credit Activity of the Irrigated Agriculture project of the Millennium Challenge Account – Armenia Program (reference is attached).
3. Discussion and approval of amendment to the Millennium Challenge Account- Armenia project Procurement Plan (reference and the procurement plan are attached).
4. Discussion and approval of the Combined evaluation report for the Final Design and Construction Supervision for construction of 4 Gravity systems under Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account – Armenia Program (reference is attached).
5. Discussion and approval of the Justification on Amendment to the Contract for Design and Construction Supervision of 6 Main Canals under Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account – Armenia Program (reference is attached).
6. Discussion and approval of the Shortlist report and RFP for Final Design and Construction Supervision for construction/reconstruction of 7 irrigation reservoirs under Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account – Armenia Program (reference and RFP are attached).
7. Discussion and approval of the Draft Contract for Technical supervision of the Package 1 Roads Constructions within Rural Roads Rehabilitation Project of the Millennium Challenge Account – Armenia Program (reference and the contract are attached).
8. Other issues;
 - a) Discussion and approval of reference regarding the solution of issue on standard RFP on procurement of Consulting Services,
 - b) Discussion and approval of changes made in RFP for Consulting Services, IA-07/002 for “Rehabilitation design and construction supervision of tertiary canals” under Infrastructure

Activity of the Irrigated Agriculture Project of the Millennium Challenge Account – Armenia Program

c) Discussion and approval of possibility for joint construction of irrigation and power reservoir on Argich river with “Hydrocorporation” CJSC private company.

The agenda was approved unanimously.

In relation to the Agenda Item 1, it was unanimously decided to approve Cancellation note of the Data Quality Reviewer Individual Consultant procurement under Monitoring and Evaluation project of the Millennium Challenge Account – Armenia Program.

In relation to the Agenda Item 2, an inquiry was made by Arayik Hovhannisyan. He mentioned that in accordance with the reference submitted, the amount will be provided to banks and credit organizations as a loan with 4% interest rate, however it is not clear what interest rate would be applied by the latter when on-lending money to borrowers and is there a possibility that all participating companies come to agreement and present high interest rate and whether the highest permitted interest rate is fixed.

Ara Hovsepyan informed that selection of banks and credit organizations will be carried out by Dutch auction, according to which the winner will be the company, who submitted the lowest additional interest rate on initial interest rate.

RA Prime Minister, Chairman of the MCA-Armenia Governing Council Serge Sargsyan mentioned that the experience of loan provision by the similar method already exists and it is rather efficient. RA Prime Minister also added that he doesn't see any reason for concern, since the probability that all participant companies will offer high interest rate is low.

Simon Ghonakhchyan asked to clarify if the listing of the submitted companies has been carried out by rating method. Ara Hovsepyan gave negative answer.

In the result of discussions it was unanimously decided to approve the list of financial institutions accredited for participation in Water-to-Market credit program under Water-to-Market Credit Activity of the Irrigated Agriculture project of the Millennium Challenge Account – Armenia Program.

In relation to the Agenda Item 3, it was unanimously decided to approve amendment to the Millennium Challenge Account- Armenia Program Procurement Plan.

In relation to the Agenda Item 4, during the discussion RA Prime Minister Serge Sargsyan asked Ara Hovsepyan why a person, involved in implementation of one assignment cannot be simultaneously be involved in implementation of another one, if, for example, he wishes to work overtime.

Ara Hovsepyan clarified that in accordance with procurement procedures it is necessary to estimate how many hours the person spends on implementation of the given assignment. It is necessary to assure high performance.

Vardan Khachatryan added that there will be a necessity of risk evaluation, to find out the quality of services that will be provided by the employee in case of working more than 40 (forty hours).

RA Prime Minister asked to clarify the following issue as well: what's the reason of such a significant difference between prices of proposals submitted by the companies, which are selected to be on the first and second place?

Ara Hovsepyan presented the amount stipulated by Procurement Plan for the implementation of the given assignment and informed that the existing price difference did not cause much concern to SNCO.

After discussion it was unanimously decided to approve the results of combined evaluation report for the Final Design and Construction Supervision for construction of 4 Gravity systems under Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account – Armenia Program.

In relation to the Agenda Item 5, an inquiry was made by Ashot Voskanyan. He was interested to know whether the Consultant has already worked out the designs.

Ara Hovsepyan informed that the preliminary design is already in the preparation stage, but the final one not yet.

Mr. Voskanyan asked to clarify whether it is possible to carry out the selection of the civil works company in a simplified way, for example by single source procurement method in order to save time.

Ara Hovsepyan clarified that from MCC's point of view of the procurement of civil works from single source is not desirable.

RA Prime Minister Serge Sargsyan added that the procurement of civil works from single source is not acceptable for RA Government as well.

At the same time RA Prime Minister mentioned that it is stated in the reference that about 117 thousand hectares of land is located under 6 main canals, which makes about 80% of currently irrigated land in Armenia. RA Prime Minister authorized MCA-Armenia to figure out the adequacy of the presented figures, in particular what percentage of currently irrigated lands in Armenia do they make and report to him about the results.

After discussions it was unanimously decided to approve Justification on Amendment to the Contract for Design and Construction Supervision of 6 Main Canals under Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account – Armenia Program.

In relation to the Agenda Item 6, Karine Danielyan asked to clarify whether environmental expertise of the lands, where the reservoirs are planned to be constructed, has been carried out.

Ara Hovsepyan explained that presently baseline data is in process of collection for the preparation of expertise documentation.

Having received the clarification it was unanimously decided to approve the Shortlist report and RFP for Final Design and Construction Supervision for construction/reconstruction of 7 irrigation reservoirs under Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account – Armenia Program.

In relation to the Agenda Item 7, Andranik Manukyan expressed his concern regarding “Arosa” Ltd, which is acting jointly with the Consultant, as “Arosa” Ltd. is involved in a number of tenders carried out

in the framework of Asian Development Bank as well as RA state budget funds. Therefore, the question is whether the company has enough potential for providing efficient services.

Ara Hovsepyan informed that Evaluation Committee did not see any reason of concern regarding that issue and gave high score to the proposal, submitted by “Kocks Consult” and “Arosa” companies. Besides, the main responsible for the implementation of contract is “Kocks Consult” company.

RA Prime Minister Serge Sargsyan asked whether the supervisor will be responsible for the quality issues occurred or it will be the entire responsibility of the contractor.

Andranik Manukyan explained that after contract completion 5% of the contract amount will be preserved and after a year if there are no defects reported, the amount will be returned to the contractor. After that the site will be included in the state balance and therefore no one is bearing that responsibility.

Vardan Khachatryan added that it is stipulated in contracts that the activities should be implemented in accordance with RA state standards. Therefore, in case of necessity the adequacy to standards is being checked and in case if the standards are not met then the supervisor will bear the responsibility.

After clarifications it was unanimously decided to approve Draft Contract for Technical supervision of the Package 1 Roads Constructions within Rural Roads Rehabilitation Project of the Millennium Challenge Account – Armenia Program.

Vahram Nercissyantz proposed to initiate site visits to see the real situation and existing problems.

RA Prime Minister accepted the proposal but recommended to postpone the site visits until spring.

In relation to Clause a) of the Agenda Item 8, an inquiry was made by Andranik Manukyan. He wanted to understand whether that provision would cover the contracts, signed before.

RA Prime Minister Serge Sargsyan informed that the provision does not have retroactive effect.

Arayik Hovhannisyanyan asked to clarify Clause 2 of the reference, in particular the issue of reviewing the amount in future.

Ara Hovsepyan explained that revision of the amount in future means that the amount would be reviewed in accordance with payment schedule stipulated in the Contract.

Vahram Nercissyantz asked whether the risk of fluctuation in exchange rate is the responsibility of contractor or there is a possibility that the risk can be extended to Government as well.

RA Prime Minister Serge Sargsyan clarified that actually in the given case there is no issue of risk replacing, since the Consultant decides himself the currency of proposal and therefore he has an opportunity to evaluate the risk in all cases.

Ara Hovsepyan clarified that in past the companies had to present their proposals in USD and then the amount was exchanged to RA drams and the Contract was signed in drams. In that situation the companies were facing serious concerns regarding possible fluctuation in USD exchange rate. Taking into account the situation, MCA-Armenia suggested MCC to review the accepted approach and received no-objection of the later.

Mr. Nercissyantz mentioned that business risk is the responsibility of a businessman and it can never become state responsibility.

Alex Russin informed all those present that in the given case the issue is not only USD exchange rate, but the scope of works, first of all. During Compact signing MCC was trying to forecast the efficiency of income increase and rural poverty reduction. But due to RA dram stabilization, the scope of program and accordingly the number of beneficiaries have reduced and due to that reason it is possible that in 5-10 year the results of evaluation will report that the efficiency is lower than it was initially planned. No one is guilty in this situation. Alex Russin also added that MCC is satisfied that MCA-Armenia Program is a part of RA state program and it already had positive impact. It means that even if it is not possible to implement all planned activities within the frames of the funds allocated, the Government will promote the implementation process.

At the same time Alex Russin informed that he has given no-objection to signing contracts in RA dram, since it will encourage the contractors to do their work better. However, it is clear that if USD rate continues to reduce, the scope of program will reduce and the impact of the later will go down, but the fact that RA Government will finally implement all the activities, left out of program, is very essential for MCC.

RA Prime Minister Serge Sargsyan approved the above mentioned approach of Mr. Russin and also mentioned that the amounts provided to the Republic of Armenia within the frames of the program have also encouraged RA dram stabilization. In fact, not only the main principal activities have been implemented due to program, it also had a positive impact on RA economy.

Alex Russin informed that in the beginning of the program it was impossible to evaluate the level of effectiveness of the program. Eventually, MCA-Armenia Program is a grant to the Republic of Armenia and the only purpose of MCC is to assist the efficient implementation of the grant and with that purpose MCC has recommended RA Government to leave risk of fluctuation in exchange rate on the contractor, but the proposal was rejected and MCC accepted the approach of RA Government.

In this regard, RA Prime Minister Serge Sargsyan expressed his gratitude to Alex Russin.

After clarifications it was unanimously decided to take into account the reference regarding the solution of issue on standard RFP on procurement of Consulting Services and apply this approach in further cases.

In relation to Clause b) it was unanimously decided to approve changes made in RFP for Consulting Services Contract IA-07/002 “Rehabilitation design and construction supervision of tertiary canals” within the frames of Infrastructure Activity of Irrigated Agriculture Program.

In relation to Clause c) Vardan Khachatryan expressed his concern related to the implementation of the given program, since it is a precedent. He also mentioned that before starting the program like that it is necessary to evaluate whether water in the given river is sufficient both for irrigation and for hydropower station works. We should record the fact that priority issue is irrigation.

RA Prime Minister Serge Sargsyan mentioned that if agreed, all necessary conditions should be stipulated in contract to be signed.

Karine Danielyan asked to clarify the following provision, presented in the reference: “it is expected to carry out evaluation of the negative impact on environment” and also what kind of measures would be introduced in case if EIA is negative.

Ara Hovsepyan clarified that technical evaluation will be carried out and in case of EIA negative conclusion, the planned works will not be implemented.

Andranik Andreasyan asked RA Prime Minister to authorize all corresponding entities, RA Ministry of Environmental Protection, in particular, before providing any permit to sites with state importance, receive approval of related line institutions first.

RA Prime Minister Serge Sargsyan gave high evaluation to mutual works with private investor and mentioned that the priority should be given to water users rights' protection.

After discussions it was unanimously decided to approve the issue of changes to be made in contract with "Hayjrnakhagits Institute" CJSC, to start official negotiations with private investor, develop final design for the mutual construction of reservoir.

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

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