

Minutes No. 27

**MCA-Armenia Governing Council Session
11:00, March 12, 2008
GoA Conference Room**

The session was chaired by H.E. 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:

Hovik Abrahamyan	Deputy Prime Minister, Minister of Territorial Administration
Vardan Khachatryan	Minister of Finance and Economy
Andranik Manukyan	Minister of Transport and Communication
David Lokyan	Minister of Agriculture
Arayik Hovhannisyanyan	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” (FARA) NGOKarine Baghdasaryan Authorized representative of GC member Karen Nazaryan, Executive Director of “Armenian Inter-Church Round Table” NGO

GC observer:

Karine Danielyan	Environmental observer of Millennium Challenge Account-Armenia SNCO, President of “Association for Sustainable Human Development” NGO
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In absence of:

Vahram Nercissyantz	Chief Economic Advisor to President of Armenia
Alex Russin	GC Observer, MCC Resident Country Director, MCC Armenia

Invitees:

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

Participants:

Ara Hovsepyan	CEO, MCA-Armenia SNCO
Nora Martirosyan	Legal Counsel/GC Secretary of MCA-Armenia SNCO

Rudolf Petrosyan	Procurement Officer, MCA-Armenia SNCO
Levon Martirosyan	Assistant to Prime Minister
Zaliko Barseghyan	Senior Specialist Economic Department, Government Staff
Mery Harutyunyan	Head of Public Relations Department of the Staff of RA Government
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). The Prime Minister informed GC members that MCC representative will not participate in the meeting, as in compliance with US Government policy during state of emergency conditions MCC representative at his/ her discretion may not participate in GC meeting.

The Prime Minister of the Republic of Armenia offered to present suggestions and questions on the agenda, if there were any.

Vardan Khachatryan suggested to exclude second item of the agenda as MCC representative was not present and the issue was mainly related to the information presented by MCC representative and their position.

The Prime Minister of the Republic of Armenia mentioned that he did not consider it right to exclude the item from the agenda as it was rather important and it would be preferable that GC members become aware of it.

The Agenda was approved as follows:

1. Discussion and approval of the Seventh Disbursement Request and the below listed documents, attached to it, to be submitted to MCC:
 - a) Disbursement Request and Quarterly Financial Report,
 - b) Condition Precedent Report,
 - c) Financial and Work Plans,
 - d) Quarterly Progress Report
 - e) Procurement Plan and Procurement Performance Report
2. Discussion of MCC's Objection letter related to on the results of the combined evaluation of technical and financial proposals on consulting services on Institutional Strengthening of the Irrigation Management Entities, WM/IS-06/005 under Infrastructure Activity of the Irrigated Agriculture Project of the MCA-Armenia Program (reference, MCC's letter and MCA-Armenia's response are attached).
3. Discussion and approval of the results of Dutch Auction of the financial institutions under Water-to-Market Credit Activity of the Irrigated Agriculture project of the MCA-Armenia Program (reference is attached).
4. Discussion and approval of the Amendment to the Contract IA-06/03 "Design and Construction Supervision for Rehabilitation of 6 Main Canals" under Infrastructure Activity of the Irrigated Agriculture Project of the MCA-Armenia Program (reference and the contract amendment are attached).
5. Discussion and approval of the Draft Contract for Consulting Services for the Final Design and Construction Supervision for Construction of 4 Gravity Irrigation Systems under Infrastructure Activity of the Irrigated Agriculture Project of the MCA-Armenia Program (reference and the contract are attached).

6. Discussion and approval of the Draft Contract for Consulting Services for “Technical Audit of works implemented for the roads included in the Package 1” within Rural Roads Rehabilitation Project of the MCA-Armenia Program (reference and the contract are attached).
7. Other issues.

a/ information on lands currently irrigated in Armenia and lands located under 6 main canals to be rehabilitated within the frames of the program.

The agenda was approved unanimously.

In relation to the Agenda item 1, it was unanimously decided to approve the Seventh Disbursement Request and the above listed documents attached to it.

In relation to the Agenda item 2, GC member Hrachik Javadyan left the meeting in order to avoid conflict of interest. However, before leaving Mr. Javadyan expressed his belief that GC members would be objective because the above mentioned issue dealt with his reputation.

Related to the mentioned item Karine Danielyan raised a question. Mrs. Danielyan declared that in the reference it was pointed out that only 61% of the wells functioned normally and due to that it was the only main reason that MCC had suggested excluding Foundation for Applied Research and Agribusiness (FARA) from the Joint Venture with GTZ and Avag Solutions (recognized as the bid winner). FARA was the only specialized company in that sphere and excluding the latter from the JV could endanger the efficiency of the whole project. Mrs. Danielyan also asked to clarify the problem connected with maintenance of the wells.

Ara Hovsepyan presented MCA-Armenia’s letter to MCC pointing out that the main problems had arisen mainly during the maintenance of the wells.

David Lokyan informed that he was familiar with that problem as during assignment of the USDA new director Sean Carmody they had investigated the above mentioned issue. Mr. Lokyan pointed out that they had made several visits to the areas where the wells were located, for example, the town of Chambarak in Gegharkunik Marz, and had found out that the problems, connected with functioning, are mainly because of local authorities wrong maintenance or careless attitude. For example, in some places the transformers were stolen. Mr. Lokyan noted that FARA was a professional organization and only in some few cases there were misleading and the reason was lack of financing. Besides he had got acquainted with Sean Carmody’s report from which it was clear that the wells malfunctioning had nothing to do with FARA’s work quality.

Mr. Lokyan suggested visiting with MCC representative Alex Russin the wells and to study the problem there.

The Prime Minister of the Republic of Armenia expressed his surprise pointing that if the quality of the services was poor, the company should have been imposed sanctions because in all such contracts there usually were serious penalties if the work was not performed to the standard.

Mr. Serge Sargsyan, The Prime Minister of the Republic of Armenia added that there was no need to think over the issue as MCA-Armenia SNCO has conducted the tender strictly in compliance with procurement procedures. If MCC has some reasons not to involve FARA in the program they can inform the GC and take the responsibility for their final decision.

Ara Hovsepyan presented third part of c) point ii) sub point of the appendix 1 of the Compact according to which “MCC shall have the authority to exercise its approval right set forth in the Section 3 (c) in its sole discretion and independent of any participation or position taken by the MCC Representative at a meeting of the Governing Council. MCC retains the right to revoke its approval of a matter if MCC concludes that

its approval was issued on the basis of incomplete, inaccurate or misleading information furnished by the Government or MCA-Armenia”.

Mr. Hovsepyan also added that from legal point of view the term could be interpreted in various connotations. However,

Mr. Serge Sargsyan, The Prime Minister of the Republic of Armenia noted that it could have several interpretations for us but not for MCC.

Arayik Hovhannisyan first congratulated Mr. Serge Sargsyan, The Prime Minister of the Republic of Armenia for being elected as the president of the Republic of Armenia. Afterwards going back to the discussing issue, he declared that it should be divided into two parts: the first part should be the documentation part and the second part – conflict of interest. Mr. Hovhannisyan noted that there was no problem connected with the provided services as it was accepted by the contractor and besides according to his information the relations with the company were continued. In case of conflict of interest the issue will be accepted and in case the contract is awarded at that time to his opinion Mr. Javadyan will resign from MCA-Armenia GC.

David Lokyan asked to clarify the information based on what MCC was acting as the program audit has been implemented and has not defined any problem.

Ara Hovsepyan clarified that the first source of the information is the report made by the research team leaded by Vardan Urutyan. Mr. Hovsepyan added he has studied the report and he thinks that it is generally neutral. The rest of the information was from unofficial sources and MCC has not disclosed those to MCA-Armenia SNCO.

Mr. Serge Sargsyan, The Prime Minister of the Republic of Armenia added that the discussion of the mentioned issue can be finalized as the presence and the comments of the MCC representative are necessary. Only after receiving the comments and MCC’s final official position it will be possible to make a decision.

After the discussion it was unanimously/ 9 pro, no cons and abstained/ decided to request MCC’s official position on the issue and, if necessary, discuss the issue again at the next GC session.

In relation to the Agenda item 3, Ara Hovsepyan mentioned that according to the information presented by MCC the approval of the mentioned item by GC would be final and MCC’s formal approve was not mandatory.

Hrachik Javadyan asked to clarify what should the rural farmer put as collateral in order to get credit and whether there was a developed approach on this issue.

Ara Hovsepyan clarified that the banks should act according to their adopted procedures and MCA-Armenia would only re-finance credits, in case credit package is in compliance with MCA-Armenia program loans eligibility criteria.

Mr. Voskanyan wanted to know if credit organization were ready to participate with 4% annually. He was concerned about the fact that ACBA Credit Agricole Bank, which was specialized in that sphere had not presented request for participation.

Ara Hovsepayn clarified that the banks and credit organizations participated with 4% plus the suggested spread. In addition, ACBA Credit Agricole Bank dchose not to participate as probably they were not interested in the suggested lots.

Serge Sargsyan, The Prime Minister of the Republic of Armenia added that ACBA Credit Agricole Bank had bigger funding resources and implemented its activities based on its own resources.

David Lokyan noted that although ACBA Credit Agricole Bank had been established by the support of the state, it had adopted rather rough credit policy. To his opinion, MCA-Armenia should adopt milder and affordable credit policy.

Mr. Serge Sargsyan, the Prime Minister of the Republic of Armenia expressed his satisfaction that other banks are gradually getting specialized in rural crediting system.

Vardan Khachatryan added that such programs had already been implemented by banks through other programs.

David Lokyan declared that he praised highly the participation of newly established companies in this process and, therefore, the agricultural credit sector was gradually being developed.

After discussions it was unanimously decided to approve results of financial institutions participated in auction of loan allocation under Water-to-Market Credit Activity of the Irrigated Agriculture project of the Millennium Challenge Account – Armenia Program.

In relation to the Agenda item 4, it was unanimously decided to approve the Amendment to the Contract IA-06/03 “Design and Construction Supervision for Rehabilitation of 6 Main Canals” under Infrastructure Activity of the Irrigated Agriculture Project of the MCA-Armenia Program.

In relation to the Agenda item 5, Karine Danielyan asked to clarify if the irrigated 4 gravity systems will pass forest reserve of Shikahogh.

Ara Hovsepyan clarified that it will be clear only after final design is completed and this issue will be taken into account.

After clarification it was unanimously decided to approve the Draft Contract for Consulting Services for the Final Design and Construction Supervision for Construction of 4 Gravity Irrigation Systems under Infrastructure Activity of the Irrigated Agriculture Project of the MCA-Armenia Program.

In relation to the Agenda item 6 it was unanimously decided to approve the Draft Contract for Consulting Services for “Technical Audit of works implemented for the roads included in the Package 1” within Rural Roads Rehabilitation Project of the MCA-Armenia Program.

Realted to the seventh item of the agenda Ara Hovsepyan presented information on Design and Construction Supervision for Rehabilitation of Six Main Canals

In relation to the Agenda item 7, Ara Hovsepyan presented information on lands currently irrigated in Armenia and lands located under 6 main canals to be rehabilitated within the frames of the program. He pointed out, that following the instruction given by the Prime Ministers of the Republic of Armenia, MCA-Armenia has concretized the number of currently irrigated lands in Armenia and the lands located under 6 main canals and the information corresponds to the datas presented in the past, i.e.: currently irrigated lands in Armenia are 125,700 hectares, and lands located under 6 main canals are almost 101,000 hectares, which is almost 80% of Armenia irrigated lands.

In relation to the Agenda item 7, Andranik Manukyan declared that the Bid opening of the first package of the road construction works took place on the previous day. MCA-Armenia SNCO is in the evaluation process of the Bids. However, issue related to the procurement of bitumen is not yet solved. At present it is possible to buy bitum at the cost of 700 USD, though the price may rise up to 1000 USD. Taking into consideration the fact, Ministry of Transport and Communication of RA has sent a letter to MCA-Armenia SNCO and Ministry of Finance and Economy of the Republic of Armenia suggesting to procure bitumen beforehand.

Ara Hovsepyan clarified that the mentioned issue was discussed with MCC. The Construction contract approved by MCC planned for 10% of advance payment to the contractors to be able to mobilize and do necessary purchases.. After discussions, it was agreed with MCC to elave the 10% advance payment level as it was, without raising it further even if for bitumen purchase.

The Prime Minister of the Republic of Armenia informed that it should be the problem of the contractors to hedge their cost rising ruisks: if they want to to benefit more they can procure bitumen beforehand from their own proceeds.

Ara Hovsepyan added that there were already existing examples, such as “Dorozhnik“ Ltd that had taken loan to buy bitumen at less cost in advance of the construction.

After expiring the agenda items, the meeting was adjourned.

MCA-ARMANIA GOVERNING COUNCIL CHAIRMAN,
RA PRIME MINISTER

SERGE SARGSYAN

The minutes were taken by:

Nora Martirosyan
Legal Counsel/GC Secretary,
MCA-Armenia SNCO