

Contains Procurement Related Confidential Information

Minutes No. 35

**MCA-Armenia Governing Council Session
16:00, November 4, 2008
GoA Conference Room**

The session was chaired by H.E. Tigran 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:

Armen Gevorgyan	Deputy Prime Minister, Minister of Territorial Administration
Aramayis Grigoryan	RA Minister of Agriculture
Tigran Davtyan	RA Minister of Finance
Mushegh Tumasyan	Deputy Minister of Economy
Hrant Beglaryan	Deputy Minister of Transport and Communication
Karen Zadoyan	Chairman of "Armenian Young Lawyers Association" NGO
Victor Yengibaryan	Chairman of "European Movement of Armenia" NGO
Arman Voskanyan	Representative of "Development of Tavush" NGO
Shirak Mikayelyan	Authorized representative of "Work and Motherland" NGO

GC observer:

Alex Russin	GC Observer, MCC Resident Country Director
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In absence of:

Vahram Nercissyantz	Deputy Chairman of the MCA-Armenia Governing Council, Chief Economic Advisor to President of Armenia
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Nerces Yeritsyan	RA Minister of Economy
Gurgen Sargsyan	RA Minister of Transport and Communication
Karine Danielyan	Environmental observer of Millennium Challenge Account-Armenia SNCO, President of “Association for Sustainable Human Development” NGO
Poghos Shahinyan	Chairman of National Road Safety Council" NGO

Invitees:

Andranik Andreasyan	Chairman of the State Water Committee of the Ministry of Territorial Administration
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Participants:

Ara Hovsepyan	CEO, MCA-Armenia SNCO
Nora Martirosyan	Legal Counsel/GC Secretary, MCA-Armenia SNCO
Mery Harutyunyan	Head of Public Relations Department of the Staff of RA Government
Simon Ghonaghchyan	Head of Economic Department, Government Staff
Hovhannes Sahakyan	Deputy Head of Economic Department, Government Staff
Diana Mnatzakanyan	Press Secretary of RA Prime Minister

The meeting was opened by Mr. Tigran Sargsyan, the Prime Minister of the Republic of Armenia and the Chairman of the MCA-Armenia Governing Council.

The Agenda was approved as follows:

1. Presentation of the Millennium Challenge Account-Armenia Program Stakeholders' Committee election results (2008-2009) (reference, the Minutes of the Election Committee the CVs of five SC Delegates to GC and the SC Second Composition's Annual Report are attached).
2. Discussion and approval of the Millennium Challenge Account-Armenia SNCO Deputy CEO selection results (Minutes, CVs and Cover Letters are attached).

3. Discussion and approval of the re-scoped Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account –Armenia Program (reference, Implementation letter and the re-scoped project are attached).
4. Presentation of information on amendments to the Contracts for Design and Construction Supervision under Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account –Armenia Program (reference is attached).
5. Discussion and approval of the Inception report presented by the Consultant providing consulting services on Institutional Strengthening of the Irrigation Management Entities under Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account – Armenia Program (reference and the Inception Report are attached).
6. Presentation of information on the implementation of the Credit Component of the Water-to-Market Activity of the Irrigated Agriculture Project of the Millennium Challenge Account –Armenia Program (reference is attached).
7. Discussion and approval of amendment to the Millennium Challenge Account- Armenia Program Procurement Plan (reference and the procurement plan are attached).
8. Other issues.
 - a) Presentation of Annual Supplemental Report, submitted to MCC annually within the frames of Millennium Challenge Account-Armenia Program

Attached to the Agenda, the members of the MCA-Armenia Governing Council were presented with corresponding references for each Agenda item.

The Agenda was approved unanimously.

Agenda item 1 was presented by Ara Hovsepyan, Chief Executive Officer of the MCA-Armenia SNCO.

Ara Hovsepyan informed that MCA-Armenia Stakeholders Committee (SC) elections took place on September 27, 2008. As a result of the elections fifteen candidates that took the majority of votes became members of the SC. At the SC session of October 13, the following five SC members were elected as the MCA-Armenia GC delegates:

- Karen Zadoyan
- Victor Yengibaryan
- Shirak Mikaelyan
- Arman Voskanyan

- Poghos Shahinyan

The Government of Armenia adopted subsequently the decree No 1228-N, dated October 30, 2008, approving the new composition of the MCA-Armenia Governing Council.

The members of the Governing Council were informed that Poghos Shahinyan, one of the five delegates, was on a business trip and could not participate at the GC session. Ara Hovsepyan proposed the new delegates to briefly introduce themselves and the organizations they represent.

Victor Yengibaryan informed that he had graduated from the Yerevan State University, Department of Psychology. He then continued his education in Germany and presently represented the "European Movement of Armenia" NGO, which was founded three years ago and was a successor of similar European movement in Armenia. The organization had more than 1000 members and its main objective was the development of Armenia and integration into Europe. The NGO is mainly funded by income generated from its subsidiary business enterprise.

Shirak Mikaelyan informed that he had graduated from Yerevan Zoological-Veterinary Institute. He represented "Work and Motherland" NGO, which was established in 2001. The core objective of the NGO is the reduction of poverty, development of small and medium enterprises, as well as issues related to youth and women. It had been three years that his organization started implementation of grant programs within the framework of the National Poverty Reduction Strategy. There are 20 NGO members and 220 volunteers in the NGO which is mainly funded from business sector investments and grant programs.

Arman Voskanyan informed that he had graduated from Idjevan branch of the Yerevan State University, Department of Economics. He represented "Development of Tavush" NGO, which was founded in 2002. The main objective and activities of the organization are focused on Tavush marz. Among the main areas of work were establishment of internet network, consulting services, etc. The organization had 25 staff and about 300 volunteers.

Karen Zadoyan is a graduate of the Law Department of the Yerevan State University. He is one of the founders of the "Armenian Young Lawyers Association" NGO. The organization provided legal consultancy and education for younger generation and activities aimed at raising the public awareness on different legal aspects. The NGO has branches in different marzes and enjoys high reputation among international organizations. Its members are lawyers, prosecutors, judges, as well as young students studying law. The NGO budget comprises of grants, membership fees and the income accumulated as a result of NGO's activities.

After discussions **it was unanimously** decided to endorse the election results of the MCA-Armenia Stakeholders Committee and its GC delegates.

Agenda item 2 was presented by Ara Hovsepyan, Chief Executive Officer of the MCA-Armenia SNCO.

Ara Hovsepyan informed that MCA-Armenia had announced a vacancy for the position of the MCA-Armenia Deputy Chief Executive Officer. An Evaluation Panel, comprising relevant Government agencies and the SC representatives were formed to conduct the selection. The Evaluation Panel consisted of the representatives of Staff of RA Government, RA Ministry of Economy, MCA-Armenia SNCO, as well as MCA-Armenia Stakeholders' Committee. There

were 39 applications received and the Evaluation Panel composed a short list, consisting of 9 candidates, who were invited for interviewing. As a result, the Evaluation Panel selected three candidates with the maximal score.

Ara Hovsepyan informed that the shortlisted candidates had been invited for the Governing Council interviewing.

Prime Minister Tigran Sargsyan asked to present the main responsibilities of the Deputy CEO.

Ara Hovsepyan clarified that the Deputy CEO will be responsible for administrative as well as for programmatic aspects of the Program, in particular, the implementation of Irrigated Agriculture Project.

Prime Minister Tigran Sargsyan mentioned that the Evaluation Panel had already evaluated the background and professional skills of the candidates and proposed to conduct interviews to find out and evaluate their managerial skills.

After the interviews with the three invited candidates, the Governing Council members discussed the results of the interviews.

After discussions **it was unanimously** decided to formally acknowledge that all three candidates correspond to the required selection criteria and, taking into account the work done by the Evaluation Panel and based on its conclusions, as well as the results of the interviews with the GC, to approve the selection results.

Agenda item 3 was presented by Ara Hovsepyan, Chief Executive Officer of the MCA-Armenia SNCO.

Prime Minister Tigran Sargsyan was interested to know what kind of arguable issues there were regarding the re-scoped Infrastructure Activity of the Irrigated Agriculture Project, submitted for the discussion of Governing Council before.

Ara Hovsepyan clarified that there were no arguable issues only points for clarification and further elaboration.

Aramayis Grigoryan proposed, if possible, to discuss the issue of rehabilitation and cleaning of close drainages, when possible, since they are in disastrous condition and have not been in use for more than 10 years.

Ara Hovsepyan clarified that since the designs had not been developed yet and the close drains had not been properly studied, therefore it was not possible to talk about the existing condition of the closed drainages. According to the preliminary data, at least additional USD 5 mln. were to be necessary for cleaning of closed drains.

Prime Minister Tigran Sargsyan asked how often the drainage system should be cleaned.

Andranik Andreasyan informed that open drainages should be cleaned once every third year and the final answer regarding close drainages can be provided when final design results are available.

Ara Hovsepyan informed that MCC submitted an Implementation Letter regarding the re-scoped Infrastructure Activity of the Irrigated Agriculture Project, which should be signed by Nerces Yeritsyan, Minister of Economy, and the Chief Executive Officer of the MCA-Armenia.

After discussions **it was unanimously** decided to approve the re-scoped Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account –Armenia Program and assign Nerces Yeritsyan and Ara Hovsepyan to sign the Implementation Letter and send it to MCC.

Agenda item 4 was presented by Ara Hovsepyan, Chief Executive Officer of the MCA-Armenia SNCO.

Ara Hovsepyan informed that it was planned to withdraw the part of technical supervision from the Contract on Design and Construction Supervision under Infrastructure Activity of the Irrigated Agriculture Project and correspondingly reduce the Contract amounts. For the construction supervision, in accordance with the new re-scoped IAP, it was decided to hire a specialized company to do the technical oversight. The latter will assure the implementation of more qualified technical supervision, as well as involvement of relevant international experts, which in turn will result in better quality and enhanced knowledge of modern international experience and professional skills.

Armen Gevorgyan asked why would the design and technical supervision works be planned together originally.

Ara Hovsepyan clarified that initially this setup option was considered more reasonable, since it was supposed that the design company would carry out construction supervision of the works based on designs prepared by their own company more efficiently.

Prime Minister Tigran Sargsyan was interested to know what the reason to change that position now.

Ara Hovsepyan informed that the quality of supervision works in the first pilot construction program under the irrigation project, carried out by a local company, was rather low and MCA-Armenia was forced to penalize the supervisor for the failures. Besides, during the last months the MCC engineers were not satisfied with the quality of work carried out by local designers. They particularly mentioned that there were no new, more effective and progressive technical solutions proposed and this was the reason MCA-Armenia and MCC had to extensively deal with those shortcomings in their deliverables.

After discussions **it was unanimously** decided to agree to the proposed amendments to the Contracts for Design and Construction Supervision under Infrastructure Activity of the MCA-Armenia IAP, taking into account the information provided in the reference note..

Agenda item 5 was presented by Ara Hovsepyan, Chief Executive Officer of the MCA-Armenia SNCO.

Ara Hovsepyan mentioned that the presented program significantly differs from the preliminary planned scope of work, in particular it is based on a much more extensive and in-depth work

with the selected WUAs, including the development and introduction of management improvement plan for WUAs.

After clarifications **it was unanimously** decided to agree to the proposed change of scope of work and, taking into account the increase of the scope, assign the MCA-Armenia SNCO to negotiate with Euroconsult Mott MacDonald on the proposed Contract amount increase and approve the resulting price increase.

Agenda item 6 was presented by Ara Hovsepyan, Chief Executive Officer of the MCA-Armenia SNCO.

Prime Minister Tigran Sargsyan was interested to know who is responsible for supervision of credit component.

Ara Hovsepyan clarified that supervision authority is assigned to the “Rural Finance Facility PIU” State Institution under the Ministry of Finance.

Aramayis Grigoryan informed that it might have been more reasonable to conduct Dutch auction for the second stage of the credit program, since it would enable keeping interests charged from the borrowers low in comparison with the overall agricultural credit market.

Ara Hovsepyan informed that the Policies and procedures paper (PAPP) was not finalized yet and the approaches should be further discussed.

Prime Minister Tigran Sargsyan asked what was the main purpose of the credit program.

Ara Hovsepyan replied that the purpose of the credit component was to assist farmers and agriculture businesses by providing long term and affordable loans which would be targeted to capital investments in improved irrigation and high value agriculture sectors. It would also encourage the introduction of new approaches and up-to-date technologies in the agricultural production. It was anticipated that the credit component would assist the credit providers to develop long term, high quality lending services and mutually beneficial relationships with the borrowers as well as to expand the framework of financial services provided to agricultural sphere.

Armen Gevorgyan asked if the implementation of credit component is condition precedent of the MCA-Armenia Program.

Ara Hovsepyan clarified that the latter is not a condition precedent of the program.

Aramayis Grigoryan proposed that the MCA-Armenia should set the interest rate in advance.

The Prime Minister added that in that case the quality of service of credit providers should be tendered.

Ara Hovsepyan expressed concern that in that case the existing credit market could be distorted.

Prime Minister Tigran Sargsyan clarified that the given amount was very small and it could not have significant impact on credit market, therefore there was no danger of interfering with the market. At the same time, the Prime Minister mentioned that since agriculture sector cannot

receive significant benefit from that amount, it might be more efficient to transfer the credit program resources to a different area, for example the Irrigated Infrastructure component.

Arman Voskanyan proposed to give up the idea of credits and provide the amount to the farmers grant money under the relevant project proposals.

After discussions **it was unanimously** decided to take into account the information presented and assign MCA-Armenia SNCO to further study the current credit market and the efficiency of the MCA-Armenia credit funds. MCA-Armenia was also instructed to discuss with the MCC the possibility of transferring the amount to other program areas and present at the next GC session a comprehensive reference on the above proposals and questions. .

Agenda item 7 was presented by Ara Hovsepyan, Chief Executive Officer of the MCA-Armenia SNCO.

Prime Minister assigned to submit to the MCA-Armenia Governing Council the report of concrete and sediments short-term consultants as soon as they are ready.

It was unanimously decided to approve the amended Procurement Plan of Millennium Challenge Account Armenia.

Agenda item 8, clause a) was presented by Ara Hovsepyan, Chief Executive Officer of the MCA-Armenia SNCO.

It was unanimously decided to take into account and agree to the Supplemental Report, submitted to MCC annually within the frames of Millennium Challenge Account-Armenia Program.

Victor Yengibaryan called the attention the GC members to the fact that when the responsibilities of RA Ministry of Finance and Economy were separated, the number of Government representatives in the MCA-Armenia Governing Council became seven, i.e. RA Minister of Finance and RA Minister of Economy, therefore the Government – civil society proportion was breached. It was proposed to increase the number of civil society members in Governing Council by one more representative.

It was unanimously decided to assign MCA-Armenia SNCO to discuss the issue of involving additional representative of civil society with Millennium Challenge Corporation and in case of positive answer initiate the implementation of the process.

Victor Yengibaryan also informed that according to Section 1.3 (a) of Governance Agreement in the first year of Program Implementation Prime Minister is assigned to the position of Governing Council Chairman. Each next Chairman should be a member with the right of voting in Governing Council elected by the members with the right of voting.

After the submission of information **it was unanimously** decided to approve that Prime Minister will continue chairing MCA-Armenia Governing Council and assign MCA-Armenia SNCO to submit the above mentioned issue to MCC for no-objection.

After expiring the agenda items, the meeting was adjourned.

MCA-ARMANIA GOVERNING COUNCIL CHAIRMAN,
RA PRIME MINISTER

T. SARGSYAN

The minutes were taken by:

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