

Contains Procurement Related Confidential Information

Minutes No. 37

**MCA-Armenia Governing Council Session
14:00, February 3, 2009
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	RA Deputy Prime Minister, Minister of Territorial Administration
Aramayis Grigoryan	RA Minister of Agriculture
Tigran Davtyan	RA Minister of Finance
Nerses Yeritsyan	RA Minister of Economy
Gurgen Sargsyan	RA 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
Poghos Shahinyan	Chairman of National Road Safety Council 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
Karine Danielyan	Environmental observer of Millennium Challenge Account-Armenia SNCO, President of “Association for Sustainable Human Development” NGO

Invitees:

Andranik Andreasyan	Chairman of the State Water Committee of the Ministry of Territorial Administration
David Sargsyan	Chief of RA Government Staff

Participants:

Mary Yovanovich	US Ambassador in Armenia
Christopher Dunn	Chief International Attorney, Millennium Challenge Corporation, Washington D.C.
Michael B. McEntire	Director, Program Procurement Policy, Department of Compact Implementation, Millennium Challenge Corporation, Washington D.C.
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
Tigranuhi Baghdasaryan	Interpreter
Vahe Mkrtchyan	Interpreter

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. Discussion and approval of the Draft Contract for Construction Supervision under Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account – Armenia Program.
2. Discussion and approval of the Millennium Challenge Account- Armenia project Audit Plan.
3. Presentation of information on the main objectives of the second phase of the Credit Component and discussion and approval of Administration and Procedures Guidelines under Water-to-Market Activity of the Irrigated Agriculture Project of the Millennium Challenge Account –Armenia Program.
4. Discussion and approval of the amendment to the Millennium Challenge Account- Armenia project Procurement Plan.
5. Presentation of information on works completed and road sections handed over for operation under Rural Roads Rehabilitation Project of the Millennium Challenge Account – Armenia Program.
6. Other issues.
 - a/ Discussion and approval of IA-08/001 Contract on Provision of Consultative Services on “Ararat Valley Drainage System Rehabilitation Design and Construction Supervision”.

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 civil works for the rehabilitation of six main canals included in the First Package within the frames of Irrigated Agriculture have already started and the issue of involving supervising company as soon as possible is very important for the MCA-Armenia. He also informed that the contract amount was more than it was estimated by budget (USD 2,967,380 instead of USD 2,771,500, which was envisaged by financial plan).

RA Prime Minister Tigran Sargsyan asked which resources would be allocated to cover that amount.

Ara Hovsepyan informed that there were resources available for contingency expenses in the MCA-Armenia Irrigation Infrastructure Activity. Besides, MCA-Armenia considers the payment of the given amount justified, since the company involved a number of international specialists in the implementation of works. The involvement of the mentioned specialists is important for high quality of the works implemented, as well as for the exchange of experience.

RA Prime Minister was interested to know what percentage of the amount, stipulated for the whole Irrigated Agriculture Program, the given contract amount makes.

Ara Hovsepyan informed that approximately 110 mln. USD is planned in total for the implementation of Irrigated Agriculture Infrastructure Activity, therefore the given contract makes about 3% of the project.

RA Prime Minister asked what would happen if MCC suspends the disbursements and how the payments would be made.

Ara Hovsepyan clarified that in the similar situation any MCA-Armenia contract would be terminated and the payments would be made only upon services already provided or works carried out.

Nerses Yeritsyan added that taking into account that the given assignment would be carried out by joint German and Armenian Consortium, it should be stated in the contract that German and Armenian specialists would work jointly on sites as well, which would be a good opportunity for on job training.

Ara Hovsepyan informed that it is stipulated by contract that the Consultant is obliged to conduct three training courses with the participation of Armenian party representatives of the Consortium, as well as the representatives of the Contractors. Besides, it is also mentioned that according to technical proposal and Terms of Reference, which is an integral part of the Contract, the Consultant is obliged to provide 80 man/month international consultants and carry out technical supervision jointly with local and international specialists.

Nerses Yeritsyan highly evaluated the idea of on job trainings and carrying out joint supervision.

After discussions **it was unanimously** decided to approve Draft Contract for Construction Supervision under Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account – Armenia Program.

Before addressing the next item of the Agenda, Ara Hovsepyan informed that H.E. Marie Yovanovitch US Ambassador in Armenia is also present at the present GC session as an observer.

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

RA Prime Minister asked if it is possible that the company, carrying out MCA-Armenia audit, could be changed in the result of tender.

Ara Hovsepyan informed that only the companies, shortlisted by USAID Office of Inspector General, can participate in the tender. Presently there are two of them in our region, but MCA-Armenia has already addressed the Office of Inspector General to review the issue of shortlisting the following two companies as well: Ernst &Young and Price Water House Cooper.

RA Prime Minister Tigran Sargsyan added that there are Armenian audit companies with rather high qualification and work experience and it would be reasonable to draw the attention of USAID Office of Inspector General to the mentioned companies. For example, “Ameria” Audit Company was mentioned.

Tigran Davtyan asked if the criteria of selecting the companies by Office of Inspector General is known.

Ara Hovsepyan answered that he could say the exact criteria, but it is known that the representatives of Office of Inspector General studied the Audit Companies in Armenia prior commencement of the MCA-Armenia Program and proposed the mentioned two companies.

RA Prime Minister proposed to take the list of Audit Companies, acceptable to the World Bank and suggest Office of Inspector General to include it in the short list as well.

After discussions **it was unanimously** decided to approve the Millennium Challenge Account-Armenia project Audit Plan.

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

RA Prime Minister Tigran Sargsyan was interested to know how “Rural Finance Facility” PIU (RFF) of RA Ministry of Finance distributes the amount, envisaged for lending within the frames of the MCA-Armenia Program.

Ara Hovsepyan clarified that the resources are allocated by banks and credit organizations in accordance with Guidelines on Credit Program Administrative Policy and Procedures and Loan Agreements.

RA Prime Minister was interested to know the principle of selecting the banks and credit organizations.

Ara Hovsepyan informed that all banks and credit organizations, which are willing to participate and meet the requirements of the MCA-Armenia, will have an opportunity to receive money for agricultural lending. First of all, the organizations have to submit Expressions of Interest, then MCA-Armenia will review them, including audit review and quarterly reports, and will compose a list of the institutions, which correspond the established criterion. Then the list will be submitted to RA Central Bank to receive the approval on whether the financial institutions are licensed and on compliance with the requirements of Central Bank.

RA Prime Minister was interested to know how it would be decided whether the banks have necessary skills for the implementation of the given program and who would assess the risks of providing loans to End-Borrowers.

Ara Hovsepyan answered that the assessment would be carried out by RFF and the assessment of lending risks will be conducted by the bank, which provides the loan. At the same time it was mentioned that one of the objectives of credit program is to encourage the banks and credit organizations to enter the agricultural lending sphere. For example, Armenian Business Bank, which did not have work experience in agricultural lending sphere before, participated in the first stage of credit component implementation and presently achieved rather successful results.

Armen Gevorgyan was interested to know whether each farmer, willing to receive credit, is obliged to submit business plan.

Ara Hovsepyan replied that during trainings, organized within the frames of Water-to-Market Activity, farmers learn about credit program. In case they are interested, they select corresponding credit institutions. In general, Water-to-Market Activity has two directions: assistance to End-Borrowers and strengthening of banks and credit organizations.

Armen Gevorgyan stated that the mentioned procedure is restricting the number of persons, who can receive credits, since only the farmers, who attended trainings, initiated by the MCA-Armenia, can apply to receive credits.

Ara Hovsepyan confirmed the mentioned fact and added that the initial objective of the program was to conduct trainings, transfer necessary skills to farmers in water management and transition to high value agriculture and provide long term credits to implement those projects. About 130 farmers have already received credits up to present.

RA Prime Minister was interested to know the principle of selecting 4 credit organizations, which are presently cooperating with the MCA-Armenia.

Ara Hovsepyan replied that Dutch auction was conducted for the implementation of the first stage of credit program and the contracts were awarded to the borrowers with the lowest proposed interest rate. Therefore, the highest interest rate is equal to 11, 5%.

Aramayis Grigoryan proposed to further narrow the frames of lending and provide credits for the implementation of one objective.

Ara Hovsepyan informed that the frames of providing credits have been already narrowed and the credits are exclusively targeted at the implementation of Water-to-Market Activity objectives.

RA Prime Minister added that he understands that Water-to-Market Activity is a complex program and that MCA-Armenia is trying to keep it complex and do not withdraw the credit component, which is a part of Water-to-Market Activity.

Andranik Andreasyan proposed to provide the credits only to the regions with excessive use of water and stipulate mandatory condition for the farmers of the given region to use advanced irrigation technologies, which would help to save water. It was also mentioned that the amount could be distributed amongst farmers as assistance.

Armen Gevorgyan proposed to stipulate necessary criteria for receiving credit, i.e. the End-Borrower is obliged to have no land tax liabilities.

Andranik Andreasyan suggested adding the mandatory requirement for the liability to pay for the used irrigation water.

Victor Yengibaryan informed that the mentioned issue had been several times discussed by the MCA-Armenia Stakeholders' Committee. Only 5-10% of trained farmers after training courses decide to change the process of conducting their businesses and the given amount would help them. In the given case, the expanding of rural business is small, but significant step forward.

Karen Zadoyan disagreed with the opinion that the tax liabilities should be a basis for rejecting to provide the credits. He also added that he did not mean that the taxes should not be paid, he just

suggested not to connect it with the given project. He was also interested to know the reason of increased interest rate.

Armen Gevorgyan opposed and mentioned that last year only 66% of the rural population fulfilled land tax obligation in the community they lived and the mentioned resources should be used for maintenance and improvement of the given community.

Ara Hovsepyan clarified that the interest rate has not significantly increased, the utmost scale in past was equal to 11,5% and presently it is equal to 12%.

Nerses Yeritsyan informed that larger scope is necessary for the transition of new technologies, so a component like that could be also added.

RA Prime Minister added that even fundamental changes could be made and the resources, envisaged for lending, could be spent in other sphere.

Ara Hovsepyan informed that the mentioned option has been also reviewed. First of all, the acceptable spheres of lending have been narrowed, then the issue of transferring the amount to other sphere was studied, however, it became clear that the above mentioned approach was not justified, since it jeopardized the efficiency of Water-to-Market Activity.

Arman Voskanyan mentioned that in spite of the fact that rather a complicated lending mechanism is applied within the frames of Water-to-Market Activity, however the interest rates of the given credits are low, therefore, attractive for many farmers. At the same time it was mentioned that the given issue has been several times discussed at MCA-Armenia SC, different opinions have been expressed, but the opinion of keeping the credit component in the Program, won the debates.

Armen Gevorgyan informed that the only compromised option could be considered the option of keeping the given component in the Program and adding the requirement of tax liabilities in the preconditions of receiving the credits.

After discussions **it was unanimously** decided to approve Administration and Procedures Guidelines under Water-to-Market Activity of the Irrigated Agriculture Project of the Millennium Challenge Account –Armenia Program and add the liability of having paid paying land tax and irrigation water fees as a precondition for providing credits.

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

Armen Gevorgyan wanted to know the reason of purchasing the vehicle.

Ara Hovsepyan clarified that civil works within the frames of the MCA-Armenia Program have commenced and there will be need for multiple visits to construction sites , so the number of cars available is not sufficient.

RA Prime Minister suggested postponing the procurement of vehicle until March, at the time of MCC next disbursement.

After discussions **it was unanimously** decided to approve the amended Procurement Plan of the Millennium Challenge Account- Armenia Program, postponing the procurement of vehicle until March.

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

RA Prime Minister was interested to know about the quality of civil works carried out.

Gurgen Sargsyan clarified that the quality of civil works, as well as the quality of technical supervision was rather high. The road, in general, is of a high quality.

Ara Hovsepyan informed that MCA-Armenia SC member Poghos Shahinyan was also involved in State Committee, responsible for the acceptance of the road.

Poghos Shahinyan informed that he participated in the process of road acceptance and expressed his positive evaluation to the quality of works carried out. The cooperation with Lincy Foundation was also mentioned as a positive fact. However, it is necessary to remember about road safety as well. The total annual loss in the result of road accidents, death cases, heavy and low injury cases is estimated to approximately USD 100 mln. The given estimate is carried out based on individual social investment during the lifetime of each person. Presently, safety issue is very urgent and in order to solve this issue National Road Safety Strategy for the Republic of Armenia and city of Yerevan and Five-Year Action Plan was developed and submitted to RA Government. The amount, estimated in 10 mln. USD is necessary for the implementation of the mentioned program.

Arman Voskanyan mentioned that road safety issue is really urgent, since presently there are a lot of ongoing civil works and based on that, good roads and violation of road safety rules will result in increase of death cases.

RA Prime Minister mentioned that the number of death cases in the result of road accidents was rather high. He also expressed an interest related to the information presented by Poghos Shahinyan.

RA Prime Minister Tigran Sargsyan instructed Poghos Shahinyan to present to RA Government the information on road safety issues raised.

Gurgen Sargsyan informed that the corresponding Action Plan is available and presently the Government of the Republic of Armenia is waiting to receive grant from the World Bank, which would enable to implement the activities, stipulated by Action Plan.

After discussions **it was unanimously** decided to take into account the information on works completed and road sections handed over for operation under Rural Roads Rehabilitation Project of the Millennium Challenge Account – Armenia Program.

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

Andranik Andreasyan informed that the procedural issues regarding the given item have already been discussed, the contract type is sample and it is necessary to start design works as soon as possible.

It was unanimously decided to approve IA-08/001 Draft Contract on Provision of Consultative Services on “Ararat Valley Drainage System Rehabilitation Design and Construction Supervision”.

While discussing the other issues Gurgen Sargsyan informed that starting from January 1, 2009, the salaries of “Armenian Roads Directorate” SNCO (hereinafter “ARD”) employees, funded by state budget, World Bank and Asian Development Bank projects have been increased. In total, it is about AMD 400,000 monthly. Taking that into account, it is necessary to correspondingly review the salaries of employees, funded from the resources of Millennium Challenge Account-Armenia Program.

Ara Hovsepyan informed that the given issue was discussed with MCC and it was suggested postponing the positive solution of the issue.

RA Prime Minister Tigran Sargsyan talked positively on that issue and mentioned that it is reasonable that the employees with the similar qualifications and same positions should get equal salaries.

After clarifications **it was unanimously** decided to instruct MCA-Armenia SNCO to allocate resources for the increase of salaries of ARD corresponding employees.

After expiring the agenda items, the meeting was adjourned.

MCA-ARMENIA GOVERNING COUNCIL CHAIRMAN,

RA PRIME MINISTER

T. SARGSYAN

The minutes were taken by:

Nora Martirosyan

Legal Counsel/GC Secretary,

MCA-Armenia SNCO

