

**Contains Procurement Related Confidential Information**

**Minutes No. 39, part 1**  
**MCA-Armenia Governing Council Session**  
**15:00, April 17, 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
Mushegh Tumasyan	RA Deputy Minister of Economy
Hrant Beglaryan	RA Deputy Minister of Transport and Communication
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
Syuzanna Soghomonyan	Authorized representative of Karen Zadoyan, Chairman of "Armenian Young Lawyers Association" 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
Nerses Yeritsyan	RA Minister of Economy
Gurgen Sargsyan	RA Minister of Transport and Communication
Karen Zadoyan	Chairman of "Armenian Young Lawyers Association" NGO
Ruben Khachatryan	Chairman of “Foundation for Preservation of Wildlife and Cultural assets of Armenia”, MCA-Armenia GC Environmental Observer

**Invitees:**

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

**Participants:**

Ara Hovsepyan	CEO, MCA-Armenia SNCO
Nora Martirosyan	Legal Counsel/GC Secretary, MCA-Armenia SNCO
Hakob Petrosyan	Rural Roads Rehabilitation Officer, MCA-Armenia SNCO
Tigran Kalantaryan	Irrigated Agriculture Project Officer, MCA-Armenia SNCO
Frances Reid	MCC Deputy Vice President
Simon Ghonaghchyan	Head of Economic Department, Government Staff
Hovhannes Sahakyan	Deputy Head of Economic Department, Government Staff
Marina Kushkyan	Specialist of Protocol Division, Government Staff
Yuri Javadyan	Director of “Hayjrnakhagits Institute” SNCO
Varuzhan Hovasapyan	Director of “Haygyughshinnakhagits” Ltd.
Armen Avagyan	Director of “Jrtuk” Ltd.
Edik Mesropyan	Director of “Jinj” Ltd.
Mels Petrosyan	Director of “Jrarbi” Ltd.

Harutyun Hakobyan	Project Manager, “Design and Construction Supervision of Tertiary Canals”
Hayk Matevosyan	Director of “ShMSh-23” OJSC
Francis Marquier	Manager of “SADE”, Armenian branch
Khachatur Adumyan	Interpreter
Karine Davtyan	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 List of the Credit Providers for the Credit Component of the Water-to-Market Activity of the Irrigated Agriculture Project of the Millennium Challenge Account-Armenia Program.
2. Discussion and approval of the Draft Audit Contract of the Millennium Challenge Account – Armenia Program.
3. Discussion and approval of the revised Procurement Plan of the Millennium Challenge Account – Armenia Program.
4. Discussion and approval of the Draft Contract for the Bidding Document Specialist under the Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account-Armenia Program.
5. Discussion and approval of the Draft Amendment to the Contract for Construction of Six Main Canals (Package 1) under the Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account-Armenia Program.
6. Discussion and approval of the Draft Amendment to the Contract for Design and Construction Supervision of the Tertiary Canals under the Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account-Armenia Program.
7. Presentation of information on the current stage of the Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account-Armenia Program.
8. Presentation of information on the current stage of the Rural Roads Rehabilitation Project of the Millennium Challenge Account-Armenia Program.
9. Other issues.

Regarding the Agenda Ara Hovsepyan informed that the negotiations with the winning bidder of the audit contract had not generated any final result yet, therefore, the item should be removed

from the presented agenda. In addition, it would be more reasonable to discuss agenda item N7 as item N2 since the other items that followed were logically derived from its content.

The approach presented was accepted and the Agenda was approved unanimously.

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

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

Ara Hovsepyan informed that RA Central Bank gave positive conclusion on the list of banks and credit organizations applied within the frames of the Water-to-Market Activity of the Irrigated Agriculture Project of the MCA-Armenia Program. According to RA Central Bank, the mentioned organizations operate within the frames of license, provided by RA Central Bank.

RA Prime Minister Tigran Sargsyan asked whether all organizations that applied, have been accredited.

Ara Hovsepyan confirmed that they have been accredited.

Arman Voskanyan asked to clarify the maximal interest rate of credits.

Ara Hovsepyan replied that the maximal interest rate would be 12%.

After discussions (with 10 pro, since Poghos Shahinyan did not participate in the voting of that issue) it **was unanimously decided to** approve the List of the Credit Providers for the Credit Component of the Water-to-Market Activity of the Irrigated Agriculture Project of the Millennium Challenge Account-Armenia Program.

**As Agenda item 2 the item 7** was presented by Ara Hovsepyan, Chief Executive Officer of the MCA-Armenia SNCO.

Ara Hovsepyan informed that the representatives of consulting and construction companies, involved in the MCA-Armenia Program, were present at Governing Council session. The main reason of their participation was that the MCC had in general been dissatisfied with the performance of works by the local contractors. In particular, the proposed technical solutions in general do not meet the progressive international standards and are rather expensive, whereas local consulting/design companies do not always accept such arguments by the MCC explaining that they are not sure that the proposed solutions are applicable to geographical and climatic conditions of the Republic of Armenia.

Ara Hovsepyan introduced the current status of the MCA-Armenia IAP Infrastructure Activity. It was mentioned that the first phase of the Main canals Package I civil works had already been completed. As a result, about 800m of the canal section (Arzni-Shamiram) have been entirely rehabilitated, as well as a number of water management and hydro technical structures repaired. Taking into account start of the irrigation season, the construction works on main canal sections were suspended until the end of irrigation period, however the works on water management structures will continue. Several international consultants were involved in the course of main canals construction, particularly the experts on water management, concrete and sedimentation, whose primary task was to introduce the best international practice.

It is planned to prepare bidding documents for the six Main canals Package II construction and announce the tender by July 2009.

Ara Hovsepyan also presented the information about the status of gravity systems included in the MCA-Armenia program. He particularly stressed that the MCC had raised major issues related to the construction of Spitak gravity system since the construction of pipeline is planned under riverbed in a rocky area and in difficult geographical conditions. To address the problem MCA-Armenia had proposed the following solution of the problem: taking into account the fact that Spitak canal could operate only when it constructed as a single scheme (i.e. not scalable), it is proposed to bid out the Spitak system in a separate lot. More importantly, the selected contractor would have to present a bank guarantee for the full amount of construction. Bank guarantee amount will be returned to MCA-Armenia in case of failure to complete the civil works in time (by September 2011).

On pumping stations Ara Hovsepyan informed that there are significant problems in that component, since MCC proposes to review and reduce this part of the program and leave fewer number of pumping stations instead of 17. MCC considers the issue of completing the works in time as the main reason for possible re-scoping. In turn, MCA-Armenia SNCO presented an alternative solution to complete the pumping stations scope of works in time by proposing to spread the 17 pumping stations into three prioritized packages: 8, 5 and 4 construction sites in each. The selected contractor will be required to conduct the works in consecutive order in accordance with preliminary agreement and work plan. In case of unfavorable process of implementation of works, the third package works and, if necessary, the second package as well, would be suspended. MCA-Armenia considered this option as the best solution to mitigate the risks, however the latter was still unacceptable for the MCC.

Ara Hovsepyan added that the designs of tertiary canals, included in the first task order, had been already finalized and would be presented to MCC soon. Mr. Ishrat Khan (WYG, Great Britain) - international expert in the tertiary team - had great contribution in that process. The involvement of the latter is vital for the implementation of this component. According to the existing contract it was planned to involve Ishrat Khan for only two months for the whole contract period (three years), whereas MCC and MCA-Armenia, as well as in the result of discussion held at conducted at Deputy Prime Minister, RA Minister of Territorial Administration Armen Gevorgyan's office, it was widely accepted that the involvement of the international consultant should be definitely increased. Moreover, the new input period should be increased by at least 6 months. The tertiary design company was ready to cover part of related expenses, i.e. 40%, whereas financing of 60% should be made from the MCA-Armenia Program budget. Detailed information in this regard is presented under a separate issue within Agenda item 6.

Ara Hovsepyan also mentioned that the information on Infrastructure Activity is presented in details in the reference submitted.

RA Prime Minister was interested to know the total amount of Infrastructure Activity.

Ara Hovsepyan replied that the total amount for Infrastructure Activity is 108 mln. USD, 97 mln. of which is for civil works.

Armen Gevorgyan informed that on April 10, 2009 he initiated a discussion on the MCA-Armenia program and in the result of the discussion an opinion has been formed that the problem is not only local designers. Actually, the designers apply their whole potential. In many cases

MCC offers solutions, which have not been applied in Armenia so far and therefore no one will take the responsibility to say whether these solutions are applicable in Armenia or no, or how effective they would be. Actually, the problem is the responsibility issue, for designers, in particular. For example, before May 15, international specialist on concrete should provide his opinion whether concrete lining technologies of main canal are acceptable for the Republic of Armenia or no. Also, pilot works are carried out in that sphere and a number of technical solutions are applied.

Regarding tertiary canals, the technologies, proposed by MCC specialists, are cheap and the approaches are acceptable. For example, earth canals construction proposal. However, there is a type of soil in Armenia, which permanently absorbs water and therefore in such cases the only solution is to construct concrete tertiary canal, for example in different zones of Armavir marz. In every specific case a specific solution should be proposed.

Regarding local designers the main problem is that Armenian designers cannot present the works they have carried out in a way accessible to public and here the role of international expert is noticeable.

At the same time Armen Gevorgyan assured that if all parties express wish and arrange the work properly, all planned works will be completed in time. The main problem is that everyone is willing to get involved more than actually needed and in all issues which ultimately results in additional hurdles for the project.

Poghos Shahinyan informed that he recalled discussions on technical issues in the program ever since 2007, however these issues seem to be left unaddressed. He asked the representatives of the design companies present whether they had work experience with other international organizations and if they had what was the reaction of the latter.

Yuri Javadyan informed that their company had more than 20 years experience with World Bank and presently has ongoing projects. Within the frames of the mentioned projects Hayjrnakhagits Institute prepared designs for a number of reservoirs, tertiary canals, gravity systems and etc. They never received negative opinions about designs prepared and never faced the situation of redoing the work again. At the same time he mentioned that in general he considers positive the issue of new technologies and solutions, however the solutions should be acceptable from the point of view of construction norms, since technical expertise is conducted based on the mentioned norms.

Varuzhan Hovhannisyan highly appreciated joint cooperation with MCA-Armenia and stressed the importance of close relations. However, he stated that design companies apply the existing laws and if a design company is willing to apply any new technology other than stipulated by construction norms, a serious study should be preliminary carried out by corresponding scientific research institute. It is necessary to review the norms periodically to enable applying those new technologies, since presently there is no legal basis for applying those technologies in the Republic of Armenia.

RA Prime Minister Tigran Sargsyan was interested to know whether there are such kind of scientific research institutes and if there are, what their names are.

Varuzhan Hovhannisyan answered that there are such institutes and mentioned few of them: RA Construction Scientific Research Institute, Institute for Stones and Silicates and etc. At the same time he added that for example in case of preparing design for Spitak gravity system they have

tried to apply new approach and riverbed was studied and it was proposed to have one part of the system constructed under riverbed.

Ara Hovsepyan asked Varuzhan Hovhannisyan whether he, as the designer of the Spitak gravity scheme, considered the risk of construction there as high.

Varuzhan Hovhannisyan informed that despite MCC's position that considered the construction of the Spitak gravity system as high risk project, the Haygyughshinnakhagits Institute, recognizing some risks, in general did not consider the construction of gravity system of a high risk and considers the construction within the planned time period realistic.

Ara Hovsepyan mentioned that for the construction of this gravity system construction companies are required to submit bank guarantee in the amount of 100% of contract price, which will of course limit the number of participants.

Armen Gevorgyan was interested to know whether there are such companies in the Republic of Armenia, which are technically capable to implement this project.

Ara Hovsepyan clarified that according to studies, conducted by MCA-Armenia technical staff, there are such companies in the Republic of Armenia.

Andranik Andreasyan mentioned that it is the third year of program implementation and so far only one construction company is operating, but the program risk is already considered to be high. The program has been re-scoped once and presently there is an issue of reducing it again. As a justification, MCC considers possible delays in implementation of construction works. Presently RA Government is negotiating in order to find additional financing sources for irrigation sphere. It is evident that MCA-Armenia program includes priority sections and if it happens so that additional volumes are left out of the program, then the Government, leaving aside priority programs will have to finance the projects that are not high priority. As for the construction norms that exist in the Republic of Armenia, they are not restrictive since they are governed by Regulatory Acts and can be modified. In the result of the above mentioned there can be one conclusion that an urgent solutions should be found, since each additional month of delay increases the risk the program.

Ara Hovsepyan agreed with Andranik Andreasyan and mentioned that presently program is facing a crucial period and if the parties do not work in close cooperation like one team, the whole program would face a risk. Therefore, MCA-Armenia's approach is to commence tenders in all activities of the program as soon as possible.

Armen Gevorgyan mentioned that there should be technical solutions which would have the durability of at least 15-20 years. Therefore, it is necessary to assure long-term results which could be reached only in the result of mutual efforts.

Harutyun Hakobyan informed that they are preparing designs for tertiary canals, which is rather a complicated assignment, since in line with technical issues there are also social and environmental issues as well. International specialists propose cheap solutions, which will enable to implement higher volume of work, whereas local consultants propose to focus on more expensive and long-term solutions.

RA Prime Minister suggested to discuss each risk stated in the reference and find final solution.

Regarding main canals, it is stated in the reference that since canal sections have not been cleaned from old deteriorated lining, it is not possible to forecast definitely the whole volume and types of works. During implementation of civil works the necessity of additional works appear that are time consuming and affects the speed of implementation.

RA Prime Minister mentioned that all construction contracts have provision for contingency expenses. Therefore, the payment for additional works will be carried out from these resources and all those expenses, which will exceed that amount, will be funded from RA state budget. Regarding the issue that during commencement of civil works there was unregulated water in the canal, which was mainly due to melted snow and sewerage water, the specialists suggest a way of preventing the flow with packs of sand. RA Prime Minister Tigran Sargsyan expressed the commitment to solve the issue of illegal outlets in different cross-sections of main canal and fund these works from RA state budget resources.

Ara Hovsepyan added that besides the presented risks, there are a number of additional issues, the solution of which is out of MCA-Armenia direct control. For example, in case of importing goods and equipment, custom clearance procedures take time which affects the terms of program implementation.

RA Prime Minister Tigran Sargsyan mentioned that a special Government decree would be adopted to establish a separate body with the purpose of addressing any urgent operational issues related to the MCA-Armenia program. The body will be directly supervised by RA Prime Minister.

Regarding construction designs for second package of six main canals Yuri Javadyan informed that when they receive final conclusion of the concrete specialist on the new technologies applied, the works will commence and Hayjrnakhagits will provide final designs for package 2 of six main canals in time, i.e. prior to June 20, 2009.

Yuri Javadyan addressed also Meghri gravity system, which was also considered to have high risk by MCC and mentioned that from his point of view there is no risk at all, since local constructors have serious work experience in installing long-distance pipeline in short time period in much more difficult geographical conditions. For example, the installation of gas pipelines in comparison to which it is easier to install water pipes.

RA Prime Minister was interested to know the reason such high risk project as Spitak gravity system, provided that the risk was really high, had initially been included in the program.

Ara Hovsepyan clarified that the risk was considered high only due to limited time left for the construction of the program.

When talking about the issue of pumping stations, RA Prime Minister Tigran Sargsyan mentioned that in order to eliminate MCC doubts it is necessary to stipulate strict sanctions in case of delays, as well as require bank guarantees from the contractors. If construction companies do not bid, it will become clear that the risk is high and if they bid, it will be evident that the risk is manageable and the contract will be implemented with the whole volume. RA Prime Minister considered unacceptable to revise or reduce the pumping stations program again, as raised by MCC. The position of the Prime Minister was to continue the tender with one single lot and attempt at implementing the project in its entirety.

The next issue related to of the designs of the tertiary canals. The Prime Minister noted that the proposed design solutions for the tertiary canals were expensive, however, part of the reason could be the peculiarities of tertiary canals construction in generally mountainous regions of Armenia that may have stipulated the high cost. As regards the need to support public consultations and carry out detailed explanatory campaign within the rural communities involved, the Government will take the commitment to support any such actions.

RA Prime Minister Tigran Sargsyan then proposed to present all these solutions to MCC.

After discussions **it was unanimously decided to** take into account the information on the current stage of the Infrastructure Activity of the Irrigated Agriculture Project of the MCA-Armenia program and assign MCA-Armenia SNCO to submit to MCC the proposed solutions and risk neutralization mechanisms.

Ara Hovsepyan informed that the agenda items No's 3 to 6 are based on the information presented and aimed at implementing the components of the IAP Infrastructure activity. Besides, detailed information on each issue has been presented to GC members by separate the references circulated in advance by the MCA-Armenia.

**It was unanimously decided to** approve a) revised Procurement Plan of the Millennium Challenge Account – Armenia Program, b) Draft Contract for the Bidding Document Specialist under the Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account-Armenia Program, c) Draft Amendment to the Contract for Construction of Six Main Canals (Package 1) under the Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account-Armenia Program and d) Draft Amendment to the Contract for Design and Construction Supervision of the Tertiary Canals under the Infrastructure Activity of the Irrigated Agriculture Project of the Millennium Challenge Account-Armenia Program.

RA Prime Minister Tigran Sargsyan proposed to break the session and address the rest of the issues in one week.

The meeting was recessed and it was agreed to continue it one week's time.

MCA-ARMENIA GOVERNING COUNCIL CHAIRMAN,

RA PRIME MINISTER

T. SARGSYAN

The minutes were taken by:

Nora Martirosyan

Legal Counsel/GC Secretary,

MCA-Armenia SNCO