

Contains Procurement Related Confidential Information

Minutes No. 42

**MCA-Armenia Governing Council Session
14:00, June 12, 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
Tigran Davtyan	RA Minister of Finance
Nerses Yeritsyan	RA Minister of Economy
Hrant Beglaryan	RA Deputy Minister of Transport and Communication
Tigran Petrosyan	RA Deputy Minister of Agriculture
Arman Voskanyan	Representative of "Development of Tavush" NGO
Shirak Mikayelyan	Authorized representative of "Work and Motherland" NGO
Karen Zadoyan	Chairman of "Armenian Young Lawyers Association" NGO

GC observers:

Alex Russin	GC Observer, MCC Resident Country Director
Ruben Khachatryan	“Foundation for preservation of wildlife and cultural assets Armenia”

In absence of:

Vahram Nercissyantz	Deputy Chairman of the MCA-Armenia Governing Council, Chief Economic Advisor to President of Armenia
Gerasim Alaverdyan	RA Minister of Agriculture
Gurgen Sargsyan	RA Minister of Transport and Communication

Victor Yengibaryan Chairman of "European Movement of Armenia" 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

Participants:

Ara Hovsepian CEO, MCA-Armenia SNCO

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

Hakob Petrosyan Rural Roads Rehabilitation Officer, MCA-Armenia SNCO

Armine Simonyan Environmental and Social Impact Officer, MCA-Armenia SNCO

Simon Ghonaghchyan Head of Economic Department, Government Staff

Rima Eganyan Leading specialist of Information and Public Relations Department, Government Staff

Marina Kushkyan Specialist of Protocol Division, Government Staff

Khachatur Adumyan 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 of the MCC objection letter to the Bidding Documents for Gravity Schemes and approval of the MCA-Armenia following steps related to the construction of the Gravity Schemes.
2. Discussion and approval of the Disbursement Request – XII, to be submitted to the MCC, and the below mentioned documents:
 - a/ The Disbursement Request (DR) and the Quarterly Financial Report (QFR)
 - b/ The Conditions Precedent (CP) report
 - c/ The Multi-year Workplan
 - d/ The Narrative Report and Indicators Tracking Table
 - e/ The Procurement Performance Report and Procurement Plan.
3. Discussion and approval of the information on transfer of the construction of Armavir and Talin Main Canals to the World Bank and the new volumes of works to be included in the Second Package of the Main Canals.

4. Presentation of the Reports submitted by the Sedimentation, Concrete and Water Management Specialists.
5. Discussion and approval of the Draft Contract for Qualitative Process Analyses for Rural Roads Rehabilitation Project (RRRP), Infrastructure and Water-to-Market Activities of the Irrigated Agriculture Project of the Millennium Challenge Account-Armenia Program.
6. Other issues:
 - a) Provision of information on terms and resources for the implementation of necessary studies for transition to European standards in road construction sphere in the Republic of Armenia;
 - b) Provision of information on progress of land acquisition, required for the implementation of civil works within the frames of MCA-Armenia Irrigated Agriculture Infrastructure Activity

Ara Hovsepyan proposed to present Agenda item 2 as Agenda item 1 and postpone the discussion of item 4 till the next Governing Council session.

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

Ara Hovsepyan informed that MCC Board meeting took place on June 10, 2009. The Board also addressed the future of MCC engagement with Armenia. As a result of the meeting, MCC will not resume funding for any further road construction and rehabilitation. MCA-Armenia SNCO was planning to receive about 19 mln. USD in July-September, 2009 to continue the rehabilitation of the roads, included in the first package, but taking into account the decision of the above mentioned Board MCA-Armenia SNCO considers reasonable to submit the regular Disbursement Request to MCC without the amount, stipulated for civil works of the roads, included in the first package and at the same time added that MCA-Armenia SNCO is ready to submit Disbursement Request to MCC, including also this component in case if Governing Council expresses such position.

RA Prime Minister Tigran Sargsyan addressed MCC representative Alex Russin to receive official clarification of the latter regarding the given issue.

Alex Russin shared the opinion of Ara Hovsepyan and added that he did not consider reasonable to include amount, stipulated for civil works of the roads, included in the first package in the Disbursement Request to be submitted to MCC. Though MCC has not yet sent an official note to RA Government informing about the decision, however it is evident from MCC Board meeting press release that MCC will not fund road construction.

After discussions **it was unanimously** decided to approve the Disbursement Request – XII, to be submitted to the MCC, and the documents attached to it without the amount, stipulated for civil works of the roads, included in the first package.

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

Ara Hovsepyan informed that MCC expressed objection on bidding documents for seven gravity schemes, according to which three out of seven gravity schemes, i.e. Meghri, Halavar and Spitak were left out from Millennium Challenge Account-Armenia Project. The reasons for objecting bidding documents for seven gravity schemes were technical problems and shortcomings of the designs.

Ara Hovsepyan informed that MCA-Armenia SNCO has prepared and presented to Governing Council corresponding detailed reference, including shortcomings and issues, raised by MCC, as well as solutions and clarifications, which MCA-Armenia previously presented to MCC.

Ara Hovsepyan mentioned that MCA-Armenia SNCO is ready to continue the works on three gravity schemes, including revision of present designs and provision of clarifications on each technical issue in case if Governing Council makes such decision. Presently in order not to delay the implementation as planned by the schedule and not to create a risk to carry out the construction of the remaining four gravity schemes, MCA-Armenia has announced a tender on construction of four gravity schemes. At the same time it was suggested to take into account MCC objection and continue the program with four gravity schemes.

Arman Voskanyan mentioned that actually MCC is periodically rejecting to finance different programs and is reducing the list of activities, for which the amount was allocated. Therefore it was proposed to Alex Russin to present the list of the planned rejections in order to know further steps in advance.

Alex Russin replied that MCC strictly follows principles and program, stipulated by Compact, which is presently applied to Irrigated Agriculture project. Regarding gravity schemes, in this case the reason of rejection is shortcomings in the designs. MCC is not actually willing to reduce the scope of works of Irrigated Agriculture project, however if bidding documents, designs in particular, are not prepared in accordance with the requirements, in such cases MCC reserves the right not to fund such programs. It is more than a year that MCC and MCA-Armenia are jointly working on revision of the designs, however, if MCC continues to further allow the process of revision, there will be a risk for the construction of the other gravity schemes.

Arman Voskanyan mentioned that at the previous Governing Council session RA Government has presented the conditions and measures, which the Government has been ready to commit in order to implement the entire Project in accordance with the schedule, stipulated by Compact, which were not taken into account by MCC.

Alex Russin mentioned that in case of pumping stations the proposals were accepted and the fact has been also taken into account that in case of pumping stations a corresponding construction company is responsible also for final design of pumping stations. It gives a chance to hope that the designs will have high quality and rehabilitation of pumping stations will be implemented with the whole scope.

Ara Hovsepyan agreed that the designs were not irreproachable, however MCA-Armenia has spent long time and efforts to review the designs and basically answered all questions, which MCC was concerned about. MCA-Armenia was confident that all questions have been answered and issues clarified. A joint work has been conducted with the design company, as well as with other companies and a reply on existing issues of economic indicators has been sent to MCC. The best solution would have been if an independent third party could study the designs, as well as MCC observations and concerns, MCA-Armenia reply and proposals, but unfortunately the timing is tough.

Arman Voskanyan proposed that MCC engineers, i.e. the people who has raised the issue and objected the construction of gravity schemes study the above-mentioned issue.

Alex Russin informed that during the last nine months MCC engineers are in close cooperation with MCA-Armenia on gravity schemes. In fact, everyone is willing to have a lot of construction projects implemented, but the issue is what is possible to do within the frames of the existing timeline and information available.

RA Prime Minister was interested to know whether there is a risk that MCC may object the construction of the remaining gravity schemes.

Ara Hovsepyan informed that he could not answer definitely, since MCC reserves the right to object any contract.

After discussions **it was unanimously** decided to take into account MCC objection letter to Bidding Documents for Seven Gravity Schemes and the Reference presented by the MCA-Armenia.

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

Ara Hovsepyan reminded those present that at the last Governing Council session the issue of transferring Talin and Armavir main canal rehabilitation works to the World Bank has been discussed and MCA-Armenia has been instructed to work on that issue with RA State Water Economy Committee and World Bank.

According to the above mentioned MCA-Armenia has cooperated with the mentioned institutions and having received MCC approval has transferred the construction of Talin and Armavir main canals with the corresponding designs to the World Bank.

Andranik Andreasyan mentioned that the World Bank Board meeting will take place the same day as Governing Council session and this issue will be also discussed. Actually, the works are underway according to the planned procedures.

Ara Hovsepyan informed that instead of Talin and Armavir main canal rehabilitation works MCA-Armenia will implement first and the second stage works of the remaining four main canals according to re-scoped program and corresponding reference presented, i.e. overall the scope of work of the second package will not change.

After discussions **it was unanimously** decided to approve the information on transfer of the construction of Armavir and Talin Main Canals to the World Bank and the new volumes of works to be included in the Second Package of the Four Main Canals.

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

RA Prime Minister was interested to know who the contract will be signed with.

Ara Hovsepyan informed that the winner of the tender was Consortium of “SOCIOSCOPE” Societal Research and Consulting Center” and “Strategy Development Agency” NGO.

Ara Hovsepyan also mentioned that since Road Rehabilitation Project is suspended, therefore the scope of the study can be also reduced with corresponding revision of the budget.

RA Prime Minister Tigran Sargsyan was interested to know where the savings will be directed.

Ara Hovsepyan informed that so far there is no final decision, however the estimates and studies are underway in that direction.

After discussions **it was unanimously** decided to approve Draft Contract for Qualitative Process Analyses for Rural Roads Rehabilitation Project (RRRP), Infrastructure and Water-to-Market Activities of the Irrigated Agriculture Project of the Millennium Challenge Account-Armenia Program, with the possibility of reduction of the budget.

At the same time **it was unanimously** decided to instruct MCA-Armenia SNCO to present at the upcoming Governing Council session information on the directions of using the existing savings.

Point a) of the Agenda item 6 was presented by Hakob Petrosyan, Rural Roads Rehabilitation Officer of MCA-Armenia SNCO.

RA Prime Minister asked to clarify the reason why it is justified to construct concrete roads in EU member countries and it is not economically feasible in RA and what is the European standards price of 1km of concrete road and 1 km of asphalt road.

Nerses Yeritsyan informed that the construction of 1 km of road with 4 lines according to European standards without bridges and tunnels will cost 4-5 mln. USD, whereas according to the existing standards the construction of 1 km asphalt road costs 1 mln. USD. At the same time it was mentioned that asphalt road, constructed by European standards is about 30% cheaper than 1 km of concrete road, constructed based on the same principle.

Hakob Petrosyan mentioned that when comparing one should take into account territorial conditions as well, for example construction of such road in valley can be several times cheaper than the construction of the similar road in mountainous area.

RA Prime Minister Tigran Sargsyan took into account the fact that a serious study should be carried out on that issue, but mentioned that the priority should be given to submission of information available without involvement of additional financial resources and specialists.

Ara Hovsepyan has committed to present more precise information on the issues raised during the next Governing Council session.

After discussions **it was unanimously** decided to take into account the information on terms and resources for the implementation of necessary studies for transition to European standards in road construction sphere in the Republic of Armenia.

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

RA Prime Minister Tigran Sargsyan was interested to know who would provide amount, necessary for resettlement/land acquisition.

Ara Hovsepyan replied that according to the Compact it is the responsibility of RA Government.

Armen Gevorgyan proposed to set August 15 as a deadline for completion of resettlement/land acquisition process and at the same time state that RA Ministry of Territorial Administration is committed prior to June 30 to present to RA Government information on a number of land plots, owners and the amount.

After discussions **it was unanimously** decided to take into account the information on progress of land acquisition, required for the implementation of civil works within the frames of MCA-Armenia Irrigated Agriculture Infrastructure Activity and set August 15, 2009 as deadline for completion of resettlement/land acquisition process.

RA Prime Minister instructed MCA-Armenia SNCO to present gravity schemes maps on the upcoming session and mention where in privately owned sections it is possible to construct gravity pipelines and mention price difference between gravity pipelines and open canals, as well as mention length of gravity scheme and sizes of private farms.

Arman Voskanyan informed that MCA-Armenia Stakeholders' Committee is very much concerned as regards to MCA-Armenia Program recent developments. Despite the fact that Program volumes are

reduced by the initiative of US side, anyway RA population has a feeling that the Program is not performed by RA Government, which results in negative economic consequences, at the same time reducing confidence of people to RA Government.

Karen Zadoyan mentioned that SC was concerned with the decision of MCC Board of Directors dated June 10, 2009 and prepared a statement with the request not to suspend Program component, which was presented at the meeting with US Ambassador, however we assume that it was not seriously addressed, whereas MCA-Armenia SC consists of rather weighty NGOs and the role of the mentioned organizations can be huge in the establishment democracy in the country and their voice should be heard, taken into consideration and appreciated.

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