MILLENNIUM CHALLENGE
ACCOUNT - ARMENIA
STATE NON-COMMERCIAL ORGANIZATION

Annual Supplemental Report
MCA-ARMENIA

October 2009

1. Cumulative Progress in Overall Compact Implementation During Fiscal Year:

Provide a description of the progress made (at the project and/or activity level) during the past twelve-month performance period (October 1, 2008 to September 30, 2009) toward achieving the objectives set out in the compact. Also include statements of cumulative progress to date. (For example, between October 1 2008 and September 30 2009, 10,000 farmers were trained in the rural development program. This brings the total number of farmers trained throughout the life of the compact through September 30 2008 to 23,000.) This section can draw from and will complement quarterly reporting in the indicator tracking table (ITT) with narrative descriptions of program progress including benefits not captured in the ITT.

MCA-Armenia's third Compact year marked a number of key milestones toward entering full implementation of the program. Under the Irrigation Infrastructure Activity of Irrigated Agriculture Program (IA) feasibility studies and design works were completed for such major infrastructure as the main canals, gravity scheme, pumping stations and the first package of tertiary canals. The significance of accomplishing this task is that MCA-Armenia moved toward construction stage and has already rehabilitated 6.5 km of tertiary canals, 1.3 kilometers of main canals and 29 canal structures[1]. The development of an Environmental Impact Assessment (EIA) and Environmental Management Plans (EMP) as well as implementation of Resettlement Action Plans (RAP) in compliance with Government of Armenia (GoAm) legislation and the Millennium Challenge Corporation standards was instrumental for moving into the construction stage of the gravity systems included in the program. MCA-Armenia's Rural Roads Rehabilitation Project (RRRP) completed the rehabilitation of 24 kilometers of the pilot H17-Armaviry-Isahakyan-Gyumri road, continued the on-going design, technical audit and construction supervision works, while the rehabilitation of the road sections included in Package 1 started under the funding of the Government of Armenia pending MCC's decision on its further support to this project. By the decision of the MCC board (dated June 10, 2009) this project was put on hold and the further implementation of civil works was assumed by the Government of Armenia.

As in the previous year, the most tangible and sizeable results were achieved under the Water to Market (WtM) activity of Irrigated Agriculture Project. More specifically, 14, 583 farmers were trained in On Farm Water Management (OFWM), of which 12, 428 attended High Value Agriculture (HVA) classes bringing the overall number of farmers that benefited from MCA-Armenia organized training courses to 30, 159. The WtM trainees have the opportunity to observe the hands-on application of the irrigation techniques and high value agriculture practices in over 193 demonstration sites that were established under the project with 35 OFWM demos

[1] *Source*: Construction Contractor Status Report for period July-August period

and 50 HVA ones established in the third compact year. As a result, one of the first outcomes of the Program was documented under this Activity. The first adoption survey conducted by the WtM Program Manager indicated that more than 9000 program trainees are implementing at least one of the practices or techniques taught under WtM.

The third compact year also marked the completion of the first stage of MCA-Armenia's rural credit program and the launch of its second stage. As of September 2009 USD 3,577,000 was disbursed under the second phase of the credit activity bringing the total amount of loans provided to 5,077,000 USD with around 400 end borrowers benefiting from access to MCA-Armenia financial resources in support of the program objectives.

Institutional Strengthening of the Water Management Entities Project that started in September 2008 became fully functional in the last year. Assessments of 44 targeted Water User Associations were completed in the reporting period with 26 Management Improvement Plans (MIP) developed. Consultations in support of MIP implementation in 8 targeted WUAs are on-going.

Rural Road Rehabilitation Project (RRRP): ***The Last Year of the Project***

The third Compact Year proved to be challenging for the Rural Roads Rehabilitation Project due to the MCC hold on funding the project. Despite the ambiguity with its future several activities were carried on under RRRP including the following:

- Completion of rehabilitation and handover of the 24.5 km of H-17 Armavir-Isahakyan-Gyumri road. Serving twelve communities in two marzes, Aragatsotn and Shirak, the rehabilitated section of the road contributes to improved access to these villages from three big cities, namely Gyumri, Armavir and Yerevan, allows easier communication between these communities and the outside world, and revives overall economic activity including trade and barter. Annual Average Daily Traffic on this road section was 735 vehicles, a 4% increase from the target of 706. [2]
- In keeping with its commitments undertaken by the Supplemental Agreement signed between MCC and RA Government in July 2008 the Government of Armenia disbursed $16,800,000 equivalent drams to co-finance the rehabilitation of the roads included in the first package of rural roads. Rural roads with a total length of 273 km benefiting 73 communities in different regions of the country were included in this package. As of September 1, 2009 different construction works were implemented on these roads (including earthworks, pothole patching, asphalt concrete layer, rehabilitation of sidewalks and etc.). However, due to the hold on the RRRP the GoA is currently looking into other funding sources to continue works on these roads.
- Technical audit and construction supervision of civil works continued under MCC funding.

Irrigated Agriculture Project (IAP)
Irrigation Infrastructure Activity: ***Moving forward with Construction***

[2] *Source*: Armenian Roads Directorate M&E report (part of Quarterly Progress Report) dated December 2008

- Construction of the first package of main canals was launched in January 2009 following the award of the contract to the French company "SADE" and its Armenian subcontractor "SHMSH-23" in December 2008. Under the first package of works 5.3 kilometers of Arzni Shamiram main canal will be rehabilitated of which 4.2 kilometers will receive new lining. Emergency canal structures will be rehabilitated in the remaining 5 main canals, i.e. Armavir, Artashat, Lower Hrazdan, Shirak and Talin[3]. Under this contract's pilot sub-component use of shotcrete and other advanced technologies on approximately 200 m of canal lining will be tested out. To date 1.3 kilometers of Arzni Shamiram canal lining and 29 structures on main canals were rehabilitated; a water management structure on Artashat main canal was constructed. The 100 kilometer long Arzni-Shamiram canal stretches through two marzes -- Aragatsotn and Kotayk – and irrigates approximately 25,000 hectares of land. At the completion of rehabilitation works more than 60,000 water users in 30 communities of these two marzes will benefit from reduced water losses and improved water management on this canal.

  Another major step in furthering construction works under IAP is the award of the construction contract for Four Gravity Systems to Arpa-Sevan Open Joint Stock Company (Armenia). In the upcoming 20 months construction works will be carried out on Aygezard, Shenik, Mantash and Vardenis gravity systems located in Ararat, Armavir, Shirak and Gegharkunik marzes. Approximately 61, 000 farmers in 23 communities will be the beneficiaries of this $5.5 million investment.

  MCA-Armenia's biggest contract on the rehabilitation of 17 pumping stations was signed on September 30, 2009 with a French consortium consisting of Farmex Technologies, Florian Lopez and Gaxieu Ingenerie. Rehabilitation of these 17 pumping stations will provide reliable irrigation water, increased electricity efficiency and improved agricultural productivity to over 182,000 beneficiaries in 100 communities throughout Ararat, Armavir, Aragatsotn, Gegarqunik, Tavush and Syunik marzes.

- Currently MCA-Armenia is reviewing the bids for Construction of the Second Package of Main Canals and the first package of Tertiary Canals.

- Construction supervision and management is key to insuring efficiency and quality of civil works. In February 2009 MCA-Armenia signed a Construction Supervision Contract with the joint venture consortium consisting of CES Consulting Engineers Salzgitter GmbH (Germany) in association with AHT GROUP AG (Germany) and Yerevan State University of Architecture and Construction (Armenia). The contract includes construction supervision of infrastructure rehabilitation works for: 6 main canals, 7 gravity systems, the renovation of 17 pumping stations, rehabilitation of the drainage system in the Ararat Valley, and oversight of several tertiary canal rehabilitation projects. MCA-Armenia considers that an important part of this assignment is organization of workshops introducing internationally recognized construction technologies, standards, requirements, and quality control issues. This will allow to build up in-country supervision capacity that MCA-Armenia found somewhat lacking through its previous experience with local supervision companies.

[3] While the WB will be doing the lining on Armavir and Talin main canals, MCA will rehabilitate the structures on all 6, i.e. Arzni-Shamiram and the remaining five quoted in the text.

During the first months of partnership with the Construction Supervision Contract MCA-Armenia discovered that many of the IAP team tasks intersect with those of the Construction Supervisor and that the existing coordination setup is time-consuming and somewhat inefficient. To overcome this limitation MCA-Armenia proposed to amend the current contract by adding project management functions to the consultant's scope of work. In the past months MCA-Armenia worked with the Construction Supervision Consultant to develop a "Quality Assurance Plan- Supervision Manual", which sets forth its current duties and obligations including the new ones related to Project Management.

Water-to-Market Activity (WtM): ***Progress Maintained***

As referenced in the opening paragraph of this document in the reporting period the Water to Market project manager (a consortium of ACDI/VOCA (USA) and VISTAA Plus (Armenia) continued its activities directed to training of farmers and establishment of demonstration sites all across Armenia, technical support was provided to MCA-Armenia's Agricultural Loans Project and concerted efforts were made to intensify interventions in support of farmer groups and agro product processors. Programmatic progress in all these directions is summarized below:

- The demonstration of OFWM improvements and HVA practices has continued successfully in all 10 marzes (regions). In addition to already familiar techniques and technologies (surface and furrow irrigation, drip irrigation, sprinklers, soil moisture and others) new solar pumps and waterwheels were first introduced by the OFWM component. To improve irrigation water management and to set up foundations for water extension currently non-existent in Armenia partnerships were created with the Federation of Agricultural Associations in Ararat Valley and the Armavir marz Agricultural Support Centers (ASC) to implement land leveling and mobile labs services. Workshops explaining the use of mobile labs were held in target communities resulting in 83 farmers interest to use its services. The program also involved local companies into the design and possible future production of such equipment as self-cleaning filters or sand-media filter.
  The HVA component continued its traditional demonstrations of seed centers or "best practice" fruit and vegetable, but also introduced US made greenhouse models that are new to Armenia in support of its strategy of planting vegetable seeds in plastic or glass greenhouses, and then transplanting to open field production. Local producers have expressed an interest to replicate these greenhouses in Armenia for commercial use (see success story # attached to this report).
- The training component currently covers more than 300 communities in all the ten marzes of the country. The intensive training schedule is being followed tightly with somewhat increased focus on HVA trainings to reflect the change in targets for farmers trained in OFWM and HVA. While the original contract stipulated a 60,000 to 30,000 proportion respectively, the Contract amendment of August 2009 changed this ratio to 45,000 and 36,000. Refinement of existing training materials is ongoing and this year improvements were made to the locally produced video material and additional videos acquired during the ToT in Israel are also added to the training sessions. The HVA training manual was finalized and OFWM handouts were updated to avoid duplication with information related to demos. The training component continues to remain instrumental for all the other aspects of the WtM activity as it provides critical

information about trainees with potential to become lead/demonstration farmers or disseminates useful information on the new phase of the credit program and helps to promote the Armenian Market Information System - ARMIS to the farmers. Such coordination among the different WtM components is key to increasing the combined impact of the program.

- Under the Post-Harvest Processing and Marketing (PPM) component 46 enterprises/farmers groups were assisted with the cumulative number of such enterprises reaching 106 for the last three years. Types of assistance include linking fruit farmers to dried fruit producers, fruit and vegetable suppliers to canneries or collection centers or cherry tomato producers to "Alishan" and "Levon" LLCs, well-established food processors in Armenia. Over 50 farmers in 3 rural communities were trained on "Quality Standards for fresh fruits and vegetables.

  Regional presentations of the Market Information System (ARMIS) launched in December 2008 continued and covered 5 out of 10 Armenian marzes. During the agricultural season noticeably increased the number of farmers requesting price information using SMS (more than 2700 requests, so far) and the number of the web-site visits (more than 5000 visits)

2. On-going Consultative Process:

Summarize principal issues and outcomes of on-going consultation with beneficiaries, civil society, private sector, donor community, et. al. Provide, if any, recommendations for more effective coordination practices related to, for example, the nature and outcome of public consultations on environmental, social assessment and/or gender-related issues.

MCA-Armenia continued to pro-actively involve program beneficiaries, stakeholders and partners into the consultative process around program implementation alongside with efforts to increase awareness about the current status of the program. This was accomplished in a variety of ways, including:

- MCA's Environmental and Social Impact Assessment Team carried on ***public consultations*** around completed irrigations infrastructure designs to solicit feedback from the residents of those communities that will be affected from rehabilitation works. During the reporting period several meetings were held in the communities that are located within the capture area of the seven gravity systems, pumping stations and tertiary canals included into IIA. While the intent of such public meetings is to involve beneficiaries into a discussion of environmental and social issues related to construction, MCA-Armenia and the Environmental and Social Assessment and Oversight Consultant (ESAOC) uses this opportunity to introduce the overall program, to highlight both positive and negative impacts, and to collectively identify mitigation measures. These consultations also served as an additional tool of learning first hand about farmers concerns with regard to irrigation issues. The most discussed topics included timing of construction (not to intervene with the agricultural works), high losses in irrigation system, farmers' concern about the cost of irrigation water and other related topics.

- MCA-Armenia initiated several ***round table discussions and programmatic presentations*** in the past 12 months. Some of the key events included:
  - The first annual workshop of ESAOC to report on the first contract year and future plan, and among other topics to share with MCA implementers and partners the experience and the lessons learnt from the public consultations.
  - A working meeting with representatives of Water User Associations (WUAs) to introduce the Institutional Strengthening of the Water Management Entities Project and hear from the WUAs on their needs and concerns.
  - A working meeting with the financial institutions interested in MCA-Armenia's Rural Credit Program to introduce the Credit Component, the key activity areas and the accreditation process.
  - Presentation of two studies completed under Monitoring and Evaluation, i.e. Data Quality Reviews and the Agricultural Data Study.
- ***Visits to program sites*** were used extensively as a way of improved understanding of the field work realities both by the MCA-Armenia team, the Stakeholder Committee members, the USG and GoAm officials, and the general public. Several trips to project sites occurred during this period including a visit to Tavush marz by the U.S. ambassador, and visit to the Kotayk marz by the U.S. ambassador and the RA deputy Prime Minister.
- Quarterly bulletins, regular website updates, press releases and press conferences were used as the main forms of information dissemination and awareness building on the program. MCA-Armenia also used the services of a professional cameraman team to film such key events as the September 16 visit to the Kotayk and Aragatsonts marzes, the Stakeholder Committtee elections and the upcoming WtM EXPO. The material will later on be used for different purposes, including a program promotional video-film and as material for different PR documents.
- ***Stakeholder Committee and civil society involvement***: MCA-Armenia continued to work closely with the Program's Stakeholder Committee (and through it with the civil society in general) to advance program goals and objectives through mobilizing the civil society around the program. In the third year of the program the SC members played an instrumental role in keeping the credit component in the program by presenting a unified front at the Governing Council and unanimously voting for it. In this challenging year they had meetings with the representatives of the U.S. and Armenian Government to present their concerns about the future fate of the program. In their meeting with the RA Minister of Economy they emphasized the importance of improving Armenia's performance on the MCC scorecard, while the meeting with the U.S. ambassador focused on the possibility of maintaining Rural Roads Rehabilitation Project in the MCA-Armenia Program.

  On September 26, 2009 representative of 360 non-governmental, non for profit organizations elected 15 members of the fourth Stakeholder Committee that will continue representing the civil society in this unique body allowing public involvement and oversight of the multi-million dollar MCA-Armenia Program.

  Recommendation: In addition to its major focus on infrastructure rehabilitation and support to agriculture MCA-Armenia has several innovative initiatives in its work related to Monitoring and Evaluation, Environmental Assessment, and civil society involvement into the program. While MCA-Armenia tries to publicize its efforts in these spheres, there still seems to be a somewhat limited understanding of these aspects of our work. In the upcoming year we plan to reach out more aggressively to the government

and civil society partners, research organizations and other constituencies who could benefit from sharing our experiences in these areas as well as contribute to our work.
Recommendation: Alongside with traditional ways of information dissemination and public awareness, it is important to come up with new, creative ways of increasing understanding of the program and enhancing its impact. In response to this need MCA-Armenia's WtM team has come up with two new ideas, i.e. the WtM EXPO and the "Buy Armenian " Campaign, both to be launched in October 2009.

3. Government Counterpart Contributions:

Describe contributions towards MCA program implementation from government counterparts, including dollar values where appropriate. These may include contributions in many different forms including financial resources, the US dollar equivalent of physical facilities in support of the MCA management unit, staff time or any other obligations and responsibilities of the Government as identified in the compact including contributions identified in the notes to the Multi-Year Financial Plan Summary and such other contributions or amounts as may be identified in relevant Supplemental Agreements between the Parties.

In the third year of the program the Government of Armenia remained fully involved in the MCA-Armenia program implementation and exercised its decision making authority through the Governing Council of the Program. Additional contributions by the Government counterparts in the reporting period included the following:

- In keeping with its commitments undertaken by the Supplemental Agreement signed between MCC and RA Government in July 2008 the Government of Armenia disbursed $16,800,000 equivalent drams to co-finance the construction of the roads included in the first package of rural roads.
- By the Government Decision 776-N dated July 9, 2009 the Government of Armenia undertook obligations to fund and implement resettlement in the communities affected by construction of Aygezard, Shenik and Mantash Gravity Systems under the MCA-Armenia Program. Around 40, 000 USD equivalent of Armenian drams was committed from the State Budget Reserve Fund to compensate for acquisition of lands/assets and notary/state cadastre registration of servitude/land purchase contracts.
- In keeping with its commitments undertaken under the Compact the Government of Armenia made progress toward meeting a number of Conditions Precedent, including adoption of the Agricultural Census Law (date), amendment of the several articles of RA Civil Code (article 27, article 1026, new article 1038.1) to facilitate the formation of agricultural cooperatives, and setting up new, more realistic targets for the WUA cost recovery.
- As in the previous years the Government also met all of its obligations with regard to budgetary allocations to program related activities, i.e. rehabilitation of road sections in the road lifeline network, its routine maintenance or maintenance of irrigation systems.

4. Donor Coordination:

Describe coordination of MCA program activities with other United States foreign assistance/initiatives and with assistance/initiatives provided by other donor countries or multilateral institutions. This can include parallel financing provided by other donors in cases of cost re-estimates and project restructuring.

In the reporting period World Bank (WB) remained one of the major donor partners for MCA-Armenia. Designs of road sections for RRRP Package II roads that were excluded from the MCA-Armenia program were transferred to World Bank. A total of ninety two kilometers of road sections in 5 marzes of Armenia were included into the WB rural road rehabilitation project. Within IAP the World Bank will assume lining rehabilitation on Armavir and Talin main canals, where MCA-Armenia is construction canals structures. MCA-Armenia and World Bank collaboration extends also to the Integrated Living Conditions Survey with both agencies providing technical support to refining poverty estimates, while MCA-Armenia also co-funds the increased rural sample.
Under the WtM activity ACDI/VOCA (Project Implementing Entity) and USDA/CARD continued to deliver joint trainings on food safety and hygiene. Under the Institutional Strengthening of the Water Management Entities Project regular consultations with the World Bank occur on policy and project implementation related issues.

5. Success Stories: *attached*

- Water More Precious than Uncultivated Land
- Armenian Farmers Like the U.S. Made Plastic Green Houses; Armenian Producers Ready to Meet the Demand