



Millennium Challenge Corporation

Reducing Poverty Through Growth

December 16, 2005

CONGRESSIONAL NOTIFICATION

Pursuant to the requirements of Section 515 of Pub. L. 108-447, we wish to notify Congress of the Millennium Challenge Corporation's ("MCC") intent to enter into a Millennium Challenge Compact with the Government of the Republic of Armenia ("GoAM"), through which MCC will grant up to two hundred thirty-five million six hundred and fifty thousand U.S. Dollars (USD \$235,650,000) of FY 2005 Millennium Challenge Account ("MCA") funds. Although the full amount of these funds will be obligated at the time the agreement enters into force, funds will be disbursed in tranches over the course of the Compact's term upon satisfaction or waiver of relevant conditions precedent. This five-year Compact will implement a program, proposed by the GoAM, which will advance Armenia's progress towards achieving lasting poverty reduction through economic growth. The program is designed to reduce rural poverty through a sustainable increase in the economic performance of the agricultural sector. It proposes to achieve this goal through a five-year program of strategic investments in rural roads, irrigation infrastructure and technical assistance and financial support to water supply entities, farmers and agribusinesses.

Pursuant to Section 610(a) of the Millennium Challenge Act of 2003 (Section 610(a) Pub. L. 108-199, Division D) (the "Act"), the appropriate Congressional committees were notified of MCC's intent to commence negotiations with the GoAM on August 22, 2005. These negotiations have resulted in a mutually agreeable program described herein, which will be formalized in a Compact on substantially the terms and substantially the form of the text of the Compact that is being forwarded with this notification. A summary of key elements of the Compact is set forth in the accompanying "Executive Summary." MCC will provide the final agreed text of the Compact, along with a detailed summary of the text, to the appropriate Congressional committees no later than 10 days after the execution of the Compact, as provided in Section 610(b) of the Act.

**Millennium Challenge Compact between
the United States of America,
Acting through the Millennium Challenge Corporation, and
the Government of the Republic of Armenia**

Executive Summary

The program to be financed under the Compact seeks to transform the economic performance of Armenia's agricultural sector and reduce rural poverty through strategic investments in two project areas proposed by the GoAM. Approximately \$67.1 million of MCA funds will be directed toward the Rural Road Rehabilitation Project. This project will rehabilitate up to 943 km of rural roads providing 265 communities and 360,000 rural residents with reduced transport costs and better access to agricultural markets, jobs and social services. To ensure sustainability, the GoAM will provide increased road maintenance funding as well as future capital investments in the rural road network. In addition, \$145.67 million will support the Irrigated Agriculture Project. This project will increase the productivity of 250,000 farmer households through two activities: (i) the Infrastructure Activity (\$113.25 million) will rehabilitate critical irrigation infrastructure across the country to bring about an expansion of the area under irrigated production and improvements to the overall efficiency of sourcing and delivery of water to farmers and (ii) the Water-to-Market Activity (\$32.42 million) will build the management capacities of the local and national water supply entities and increase farmer productivity and profitability through technical assistance and greater access to credit. The cost savings in infrastructure, the strengthening of the water supply entities and the increase in farmer productivity will help ensure the sustainable operation and management of the irrigation infrastructure.

The GoAM will establish a government corporation (MCA-Armenia), which will be the entity responsible for the oversight and management of the program. MCA-Armenia will consist of a Governing Council and a Management Unit. The Governing Council will make key strategic and management decisions. It will be chaired by the Prime Minister and include both government and civil society voting representatives. The Management Unit will be responsible for the day-to-day management of the program. Project implementation will be carried out by three separate entities reporting to the Management Unit. The Rural Road Rehabilitation Project will be implemented by the Armenian Road Directorate (part of the GoAM), and the Infrastructure Activity of the Irrigated Agriculture Project will be implemented by the Irrigation Project Implementation Unit previously established by the World Bank. Implementation of the Water-to-Market Activity of the Irrigated Agriculture Project will be contracted out to a private firm or non-governmental organization. A third party non-government entity will be engaged to provide fiscal agent services to MCA-Armenia, including funds control, disbursement documentation and management, cash management and accounting. The fiscal agent will have sole signatory authority to authorize re-disbursements from the MCA-Armenia bank account into which MCC funds will be disbursed.

The fiscal accountability mechanisms, governance structure, and audit and review requirements (including monitoring and evaluation) set forth in the Compact and to be further detailed in ancillary agreements and documents, will ensure that appropriate oversight and accountability measures are built into the implementation of the program. In accordance with its Congressional mandate, MCC will only disburse funds consistent with the limitations Congress has placed on the use and treatment of MCA assistance. These limitations are expressly set forth in the body of the Compact. MCC has also retained, through the Compact, approval rights over key agreements and implementation actions, e.g., selection of key service providers (such as the fiscal agent and auditor), certain payments, certain procurements, key personnel decisions for MCA-Armenia, detailed financial plans, and the monitoring and evaluation plan. Finally, prior to the Compact entering into force, the GoAM must, among other things, execute a Disbursement Agreement, a Procurement Agreement, and certain other ancillary agreements or term sheets in connection with such ancillary agreements.

Where To Find Key Provisions

Compact:

Article I: Objectives; Term

Article II: Funding and Disbursement Provisions; Government Contributions; Limitations on the Use or Treatment of MCC Funding

Article III: Implementation (including procurement, audit, reporting); Government Responsibilities and Assurances

Article IV: Deliveries and Conditions Precedent to Entry in Force; Conditions Precedent to MCC Disbursement and Re-Disbursement

Article V: Final Clauses, including Termination and Suspension

Annex I: Descriptions of the implementation framework and two program elements: (1) Rural Road Rehabilitation Project; and (2) Irrigated Agriculture Project

Annex II: Summary of Multi-Year Financial Plan

Annex III: Description of the Monitoring and Evaluation Plan