

Millennium Challenge Corporation

For Immediate Release
December 16, 2005

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Press Release

Millennium Challenge Corporation Board Approves Armenia Compact but Expresses Concern Regarding Irregularities in the November Referendum

Washington, D.C.—The Millennium Challenge Corporation has approved a five-year \$235.65 million Compact with the Republic of Armenia. Today, over one million Armenians, about 35% of the population, live in rural areas and are dependent on semi-subsistence agriculture. Despite good recent economic performance by Armenia and a steady decline in urban poverty, the rural poverty rate remains consistently high: 41% in 2004. Farmers are operating on small plots of land and are constrained by poor roads, inadequate irrigation and an under-developed market economy.

To overcome these constraints, Armenia's Millennium Challenge Compact aims to reduce rural poverty through a sustainable increase in the economic performance of the agricultural sector. The Compact consists of two investments: a Rural Road Rehabilitation Project and an Irrigated Agriculture Project. The program will directly impact 75% of the rural population and is expected to increase annual incomes by \$36 million in 2010 and over \$113 million in 2015.

“Congratulations to the people and Government of Armenia for this great achievement,” said MCC CEO Ambassador John Danilovich. **“They have developed an integrated, results-oriented program that will provide rural residents better access to jobs, social services, and markets and increase the productivity of farmers.”**

Addressing reports of irregularities in the referendum on reforms to the Armenian constitution held in November, Ambassador Danilovich continued, **“MCC is concerned about the government's lack of transparency and commitment to open and fair elections in the recent referendum. I have expressed those concerns to President Kocharian and look forward to working with the government to protect Armenians' ability to participate fully in the electoral process. MCC was designed to reward and work with nations that take the hard steps necessary to create a policy framework to spur economic growth and reduce poverty. Consequently, Armenia's continued participation in the Millennium Challenge Program depends on its good performance in ruling justly, investing in people, and encouraging economic freedom. MCC will continue to monitor Armenia's policy performance in these three categories throughout the life of the Compact.”**

Ambassador Danilovich has written a letter to Armenian President Robert Kocharian indicating that MCC expects the Government of Armenia to take additional steps that demonstrate its commitment to the fundamental principles underlying Millennium Challenge

Account-eligibility. A failure to take such concrete actions could result in a suspension or termination of the Compact pursuant to MCC policy.

Since its establishment last year, MCC has signed Compacts totaling more than \$900 million with five nations, Madagascar, Honduras, Cape Verde, Nicaragua, and Georgia. MCC is also actively engaging with other MCA-eligible countries in Compact negotiations.

Launched by President Bush, the MCA is a different approach to development assistance that recognizes sound policies and good governance are critical to poverty reduction and economic growth in developing countries.

EDITORS NOTE: Attached is a fact sheet with further details about the Compact.

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Millennium Challenge Corporation (MCC), a U.S. government corporation designed to work with some of the poorest countries in the world, is based on the principle that aid is most effective when it reinforces good governance, economic freedom, and investments in people that promote economic growth and elimination of extreme poverty.

Millennium Challenge Corporation

FACT SHEET

**Armenia and Millennium Challenge Corporation:
Building a Partnership for Poverty Reduction Through Growth**

Millennium Challenge Corporation's Board of Directors has approved a five-year, \$235.65 million Compact with the Government of Armenia.

Today, over one million Armenians live in rural areas and are dependent on semi-subsistence agriculture. Despite good recent economic performance by Armenia and a steady decline in urban poverty, rural poverty remains high: 41% in 2004. Farmers are operating on small plots of land and are constrained by poor roads, inadequate irrigation, and an under-developed market economy.

The Armenia Compact is focused on one goal: the reduction of rural poverty through a sustainable increase in the economic performance of the agricultural sector. Armenia plans to achieve this goal through a five-year program of strategic investments in rural roads, irrigation infrastructure and technical and financial assistance to improve the supply of water and to support farmers and agribusinesses. The Program will directly impact approximately 750,000 people, or 75% of the rural population, and is expected to reduce the rural poverty rate and boost annual incomes.

Rural Road Rehabilitation

The Compact includes a \$67 million project to rehabilitate up to 943 kilometers of rural roads, more than a third of the Armenia's proposed Lifeline road network. When complete, the Lifeline road network will ensure that every rural community has road access to markets, services, and the main road network. Under the Compact, the Government of Armenia will be required to commit additional resources for routine maintenance of the road network.

Improved Irrigation

The Compact also includes a \$146 million project to increase the productivity of approximately 250,000 farm households (34% of which are headed by women) through improved water supply, higher yields, higher-value crops, and a more competitive agricultural sector. This project consists of two activities:

- An **infrastructure** activity that aims to increase the amount of land under irrigation by 40% and will improve efficiency by converting from pump to gravity-fed irrigation, reducing water losses and improving drainage; and
- A **water-to-market** activity that will improve the efficiency of water delivery to farmers and boost farm productivity and profitability through technical assistance and credit support.

Administrative and monitoring and evaluation costs of the Program are budgeted at approximately \$23 million.

Engaging Civil Society

In preparing its proposal for Millennium Challenge Account assistance, Armenia engaged in a comprehensive consultative process that reached out to a broad cross-section of constituents, including rural community members, NGOs and the private sector. Meetings were held outside of city centers to seek input on potential program components and various media outlets were used to reach remote areas. To increase transparency, the Government of Armenia sponsored a process that resulted in three NGOs being named as observers to the Government's MCA Board of Trustees – an inter-governmental body, chaired by the Prime Minister, and responsible for overseeing the Compact development process. Going forward under the Compact, a Stakeholders Committee will be formed to represent the beneficiaries of the program. The Stakeholders' Committee will be entitled to nominate voting members from Armenia's NGO sector, to serve alongside the government's representatives on the Governing Council of MCA-Armenia, the entity that will be established to oversee and implement the Compact.



Millennium Challenge Corporation

Reducing Poverty Through Growth

John J. Danilovich
Chief Executive Officer

December 16, 2005

His Excellency Robert Kocharyan
President of the Republic of Armenia
Yerevan

Dear Mr. President:

I am pleased to inform you that the Millennium Challenge Corporation (MCC) Board has approved the Millennium Challenge Compact with the Republic of Armenia. This approval underscores the commitment of the U.S. Government to the people of Armenia and our commitment to reducing poverty through economic growth. We commend the efforts of the Millennium Challenge Account (MCA)-Armenia transaction team in successfully bringing the Compact proposal to this stage.

I must, however, inform you that the delay in the MCC Board's decision was a direct result of concerns raised regarding the conduct of the November 27 constitutional referendum, including, but not limited to, allegations of fraud, electoral mismanagement, mistreatment of individuals from opposition political parties and uneven access to the media.

During discussions hosted in parallel with the U.S.-Armenia Task Force on Economic Cooperation in September 2005, MCC indicated that international monitoring groups had raised concerns on a broad range of issues including political rights, access to the media and political freedoms in Armenia. MCC informed your government that Armenia had slipped on two of the indicators within MCC's "Ruling Justly" category. MCC further informed your government that progress in this area was necessary to avoid either suspension or termination—actions that, per MCC policy, can be initiated even after a Compact is signed and in the implementation stage. The events surrounding the referendum cause us to question whether this progress is being made. We await your government's actions demonstrating a strong desire to improve performance in accord with the requirement that MCA-eligible countries maintain policy performance consistent with MCC selection criteria.

We believe that corrective steps should be taken to demonstrate the Armenian government's commitment to the fundamental principles underpinning Armenia's eligibility for MCA assistance. The MCC Board is engaged on this issue and we will seek their assessment of any actions taken. The following are examples of the type of measures that would provide the MCC Board with some assurance of this commitment.

His Excellency Robert Kocharyan

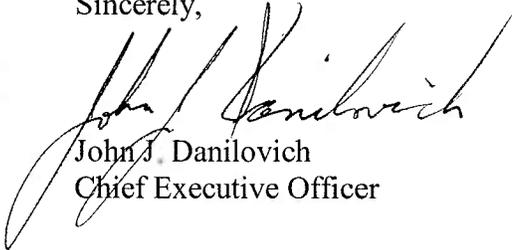
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- Assurance that the government will respect the rights of citizens to open political debate, lawful public protest and access to information from independent media and other sources;
- Acknowledgement of the numerous allegations made concerning the November 27 constitutional referendum and a high-level public commitment to investigate fully and to take appropriate measures against individuals involved in any wrongdoing; and
- Commitment to cooperate fully with civil society, international organizations, and the donor community to improve the fairness and transparency of the political and electoral process in Armenia in advance of the 2007-2008 parliamentary and presidential elections.

I want to reiterate MCC's broader concerns about the Government of Armenia's commitment to good governance and stress the need for progress in addressing the concerns raised by MCC in September 2005, consistent with the MCA eligibility criteria. MCC representatives and our Embassy in Yerevan will continue to be in close contact with your government as we continue to bring this Compact closer to implementation.

Sincerely,



John J. Danilovich
Chief Executive Officer