



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to obligate up to \$10,000,000 to facilitate the development and implementation of a Millennium Challenge Compact with the Government of Nepal.

The attached notification is being sent to the Congress on June 6, 2016. Obligation of funds may be incurred on or after 15 days from the date of this notification.

In addition, we have attached supplemental information that further describes the planned use of the funds.

Sincerely,

/s/

Paul Weinberger
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

June 6, 2016

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| PROGRAM: | Eligible Countries |
| APPROPRIATIONS CATEGORY: | Fiscal Year 2016 Program Funds |
| OBLIGATION AMOUNT: | \$10,000,000 |

Pursuant to the heading “Millennium Challenge Corporation” and section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016, this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$10,000,000 under section 609(g) of the Millennium Challenge Act of 2003, as amended, for the purpose of facilitating the development and implementation of a Millennium Challenge Compact (“Compact”) with the Government of Nepal.

The funds are expected to finance activities necessary for MCC to assess the expected impact of the proposed investments, further design activities, and develop implementation strategies.

SUPPLEMENTAL INFORMATION

MCC 609(g) Activities for Nepal

Background

Nepal's economic growth, labor productivity, and gross domestic product per capita are among the lowest in South Asia, confirming its status as a low income country. Additionally, two recent events have delivered shocks to the Nepali economy: the 2015 earthquakes that killed almost 9,000 people and pushed an additional million below the poverty line, and the three-month long blockage on the India-Nepal border. As a result of these shocks, the International Monetary Fund recently revised Nepal's economic growth projection downward for Nepal's fiscal year 2015/2016 to 0.5 percent.

There are signs of promise, however. Nepal has a newly ratified constitution, and the growing economies of South Asia provide a significant market for Nepali goods and services as well as a source of capital and expertise for the Nepali economy. In order to tap into this market, Nepal needs the right business environment, including adequate and competitively priced electricity and lower transport costs.

Compact Eligibility

Nepal became eligible for a threshold program in December 2012, after which MCC and the Government of Nepal ("GoN") undertook the Nepal growth diagnostic study. Based on this study, MCC prepared a threshold program. However, after Nepal's strong performance on the MCC scorecard, MCC's Board of Directors selected Nepal as compact eligible in December 2014. A year later, following Nepal's continued strong performance on the MCC indicators, MCC's Board of Directors again selected Nepal as compact eligible in December 2015.

Constraints Analysis and Project Proposals

The Nepal growth diagnostic study conducted during the development of the Nepal threshold program was used for the compact development process; the study identified four constraints to growth:

- 1) Political instability;
- 2) Poor labor relations;
- 3) High cost of transport; and
- 4) Inadequate supply of power

This work culminated in detailed sector analysis reports for each of the binding constraints that outlined core problems, key drivers, the institutional and donor landscape in each sector, and recommended policy and institutional reform areas. Following these analyses, MCC and the GoN identified the power and transport sectors for further exploration.

The GoN submitted a series of possible projects to address constraints to growth in the power and transport sectors. Based on an initial assessment of the possible projects, as well as consultation with the private sector and civil society, MCC has agreed to further develop those projects focused on reducing load shedding in the power sector and improving the maintenance regime of roads in the transport sector. The possible projects include the following:

Power Sector

- 1) **Network Strengthening Investments:** Improvements to the network would include reinforcements and upgrades to existing transmission and distribution lines and their substations, with the construction of new substations where needed. Possible infrastructure investments will be complimented by activities to operationalize sector reforms, potentially including the creation of a standalone national transmission company, the creation of an independent system operator, and the creation of an independent power sector regulator. Institutional capacity building to improve coordination, efficiency and social inclusiveness of Nepal's electrification policy is also envisioned.
- 2) **Generation and Off-Grid Infrastructure Investments:** Proposed investments in the generation sector include rehabilitation of existing hydropower plants using a private sector participation model where MCC's investment would help structure the transactions and providing assistance to bring those transactions to higher standards. Possible investments in off-grid systems include scaling up and operating existing off-grid projects through private sector participation, either as stand-alone projects or to be co-located along MCC funded infrastructure projects. Such projects would be identified and implemented through a competitive process that would be required to meet MCC's economic rate of return criteria.

Transport Sector

Technical Assistance and Capital Works for Roads Maintenance. Proposed projects include strengthening the GoN's road maintenance regime, improving capacity to identify and prioritize road maintenance interventions, structuring performance based road maintenance contracts, and improving road safety.

Planned 609(g) Activities

In order to assist the GoN in further developing the proposed compact program, MCC intends to fund preparatory activities to assess the expected impact of the proposed projects. Such activities will include conducting feasibility studies, economic analysis, environmental and social performance studies, gender and social inclusion studies, and studies to explore private sector participation opportunities and early administrative costs. Funding these activities reflects MCC's commitment to preparing projects in a comprehensive manner, prior to compact signing, in order to reduce implementation risk and increase confidence in the economic justification and technical feasibility of the proposed projects.