

Summary: In accordance with the Millennium Challenge Act of 2003, as amended, the Millennium Challenge Corporation is publishing on its website a summary, justification, and full text of the proposed First Amendment to Millennium Challenge Compact between the United States of America, acting through the Millennium Challenge Corporation, and the Federal Democratic Republic of Nepal. Representatives of the United States Government and the Government of the Federal Democratic Republic of Nepal plan to conclude the Amendment in January 2025.

Summary of First Amendment to Millennium Challenge Compact with the Federal Democratic Republic of Nepal

The Board of Directors of the Millennium Challenge Corporation (“*MCC*”) has approved an amendment (the “*Amendment*”) to the existing \$500 million, five-year Millennium Challenge Compact between the United States of America, acting through MCC, and the Federal Democratic Republic of Nepal (the “*Compact*”).

Background

The Compact was signed September 14, 2017, and entered into force on August 30, 2023. The Compact aims to increase domestic electricity consumption through the Electricity Transmission Project by improving the availability and reliability of electricity in Nepal’s electricity grid, expanding and strengthening Nepal’s high voltage electricity transmission network to support new investments in generation that unlock Nepal’s hydropower potential, and facilitating increased power trade between India and Nepal. The Compact also aims to maintain road quality across Nepal’s strategic road network through the Road Maintenance Project.

Scope of the Amendment

MCC proposes to provide additional funding up to \$50 million under the Compact. The proposed additional funding will be used to cover additional costs associated with the Compact's Electricity Transmission Project, thus enabling successful implementation of the project.

Justification for the Amendment

The Compact was signed in September 2017 but did not enter into force until August 2023. The protracted delay between signing and entry into force, as well as the global inflationary pressures of the COVID-19 pandemic, resulted in an increase in costs for the Electricity Transmission Project. Further, procurement for construction of the project's electricity transmission line was not initiated until September 2023 and the bids received reflected costs that were substantially higher than the original cost estimate, resulting in a failed procurement. Despite identifying significant potential reductions of cost drivers for a re-procurement of the transmission line work, MCC anticipates that the cost of the transmission line work may continue to exceed the projected compact budget.

Providing additional assistance under the Compact to support the Electricity Transmission Project will enable successful implementation of the Compact's objectives with respect to electricity reform. Specifically, the additional MCC funding is necessary for and will enable the accountable entity to sign contracts for the transmission line work once re-procurement is complete in a timely manner and maximize the remaining implementation period without further delays. The additional funding will also preserve adequate contingency across the Compact to facilitate operational adjustments that may become necessary during construction. The economic rate of return for the Electricity Transmission Project remains above 10 percent, which indicates that, even with cost escalations, this remains a highly viable and

impactful project. Therefore, additional MCC funding for this Compact would constitute a high return investment.

FIRST AMENDMENT

TO

MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA

ACTING THROUGH

THE MILLENNIUM CHALLENGE CORPORATION

AND

THE FEDERAL DEMOCRATIC REPUBLIC OF NEPAL

ACTING THROUGH

THE MINISTRY OF FINANCE

FIRST AMENDMENT TO MILLENNIUM CHALLENGE COMPACT

This FIRST AMENDMENT TO MILLENNIUM CHALLENGE COMPACT (this “*Amendment*”), is made by and between the United States of America, acting through the Millennium Challenge Corporation, a United States government corporation (“*MCC*”), and the Federal Democratic Republic of Nepal (“*Nepal*”), acting through the Ministry of Finance (the “*Government*”) (individually, a “*Party*” and collectively, the “*Parties*”). All capitalized terms used in this Amendment that are not otherwise defined herein have the meanings given to such terms in the Compact (as defined below).

RECITALS

WHEREAS, the United States of America and Nepal signed the Millennium Challenge Compact between the United States of America, acting through the Millennium Challenge Corporation, and the Federal Democratic Republic of Nepal, acting through the Ministry of Finance, on September 14, 2017 (as modified, the “*Compact*”);

WHEREAS, Section 2.1 of the Compact provides for MCC to grant to the Government, under the terms of the Compact, an amount not to exceed Four Hundred Fifty-Nine Million Five Hundred Thousand United States Dollars (US\$459,500,000) (“*Program Funding*”) for use by the Government to implement the Program;

WHEREAS, Section 2.2 of the Compact further provides for MCC to grant to the Government, under the terms of the Compact and in addition to the Program Funding described in Section 2.1 of the Compact, an amount not to exceed Forty Million Five Hundred Thousand United States Dollars (US\$40,500,000) (“*Compact CDF*”) under Section 609(g) of the Millennium Challenge Act of 2003, as amended (the “*MCA Act*”), for use by the Government to facilitate implementation of the Compact;

WHEREAS, in accordance with Section 2.2(e) of the Compact, MCC notified the Government on June 28, 2024, that the Excess Compact CDF Amount of US\$16,477,559.41 has been reallocated to Program Funding, thereby increasing the total amount of Program Funding to 475,977,559.41;

WHEREAS, the Program involves a project to increase electricity consumption by facilitating power trade and by improving the availability and reliability of electricity supply in Nepal’s electricity grid (“the *Electricity Transmission Project*” or “*ETP*”);

WHEREAS, the cost to complete the Electricity Transmission Project is now estimated to exceed the associated budget for the project; and

WHEREAS, pursuant to Section 6.2(a) of the Compact, the Parties desire to amend the Compact to increase Program Funding by 50,000,000,

NOW, THEREFORE, the Parties hereby agree as follows:

ARTICLE 1 AMENDMENTS

1.1 Amendment to Section 2.1 of the Compact.

Section 2.1 (Program Funding) of the Compact is amended and restated to read as follows:

“Section 2.1 Program Funding. Following entry into force of this Compact in accordance with Section 7.3, MCC will grant to the Government, under the terms of this Compact, an amount not to exceed 525,977,559.41 (“*Program Funding*”) for use by the Government to implement the Program. The allocation of Program Funding is generally described in Annex II.”

1.2 Amendments to Exhibit A to Annex II to the Compact.

Exhibit A to Annex II to the Compact (Multi-Year Financial Plan Summary) is deleted in its entirety and replaced by the revised Exhibit A as set forth in Annex I to this Amendment.

ARTICLE 2 GENERAL PROVISIONS

2.1. Entry into Force of this Amendment.

This Amendment shall enter into force on the date of the last signature of the Parties. Nepal represents that the Council of Ministers of the Government of Nepal has approved Nepal’s signature of this Amendment.

2.2. Scope of this Amendment.

Except as expressly amended by this Amendment, all of the provisions of the Compact remain unchanged and in full force and effect.

Done in [duplicate] in the English language.

FOR THE UNITED STATES OF
AMERICA

FOR THE FEDERAL DEMOCRATIC
REPUBLIC OF NEPAL

[name]

[title]

Date:

Place:

[name]

[title]

Date:

Place:

ANNEX I

EXHIBIT A TO ANNEX II

MULTI-YEAR FINANCIAL PLAN SUMMARY

(\$US)							
Component	CDF	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1. Electricity Transmission Project							
(a) Transmission Lines Activity	99,708	64,340,935	41,235,000	51,235,000	75,320,000	60,604,643	284,521,643
(b) Substations Activity	40,370	19,712,000	22,122,000	22,122,000	15,113,435	17,895,000	99,014,435
(c) Power Sector Technical Assistance Activity	10,218	6,398,000	2,890,000	2,886,000	2,200,000	2,263,149	17,072,149
(d) Program Management and Technical Oversight Activity	10,408.712	12,121,584	6,207,000	6,207,000	7,207,000	6,529,258	48,680,258
Subtotal	10,558,712	102,572,519	73,618,000	72,450,000	96,371,931	93,717,323	449,288,485
2. Road Maintenance Project							
(a) Technical Assistance Activity	786,900	3,688,100	1,227,000	1,142,000	165,000	36,000	7,045,000
(b) Strategic Road Maintenance Works Activity	1,045,616	3,507,384	11,645,000	16,011,000	13,031,000	0.00	45,240,000
Subtotal	1,832,515	7,195,484	12,872,000	17,153,000	13,196,000	36,000	52,285,000
3. Monitoring and Evaluation							
M&E Component Activities	0.00	732,000	1,977,000	1,898,000	1,355,000	1,760,392	7,722,392
4. Program Management and Administration							
(a) MCA-Nepal Program Administration	5,577,929	4,802,387	3,714,316	3,184,316	3,717,316	5,630,316	26,626,578
(b) Procurement, Fiscal, and Audit Services	6,053,285	1,604,852	1,450,000	1,450,000	1,450,000	2,069,408	14,077,545
Subtotal	11,631,213	6,407,239	5,164,316	4,634,316	5,167,316	7,699,724	40,704,123
MCC INVESTMENT	24,022,441	116,907,242	93,631,316	96,135,316	116,090,247	103,213,439	550,000,000
GOVERNMENT CONTRIBUTION	40,000,000	157,000,000					197,000,000
GRAND TOTAL	64,022,441						747,000,000