



# MILLENNIUM CHALLENGE ACCOUNT NEPAL DEVELOPMENT BOARD (MCA-NEPAL)

## MILLENNIUM CHALLENGE ACCOUNT NEPAL (“MCA-Nepal”)

### Synopsis of Minutes of 28<sup>th</sup> Meeting of the Board of Directors of Millennium Challenge Account Nepal (MCA-Nepal)

**Nature: Regular Meeting**

**MCA-N/BOD-M-28/27-07-2022**

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Date: Wednesday, 27<sup>th</sup> July, 2022 (2079/04/11 BS)  
Time: 3:00 PM  
Place: Conference Room of the Secretary, Ministry of Finance at Singh Durbar,  
Kathmandu  
Notice Served: 21/07/2022 (05/04/2079 BS)

#### **1. PRESENT**

##### **1.1. Members**

- **Madhu Kumar Marasini**, Chairperson  
And, Secretary, Government of Nepal, Ministry of Finance
- **Mr. Kul Man Ghising**, Member  
And, Managing Director, Nepal Electricity Authority
- **Madhu Prasad Bhetuwal**, Member  
And, Joint Secretary, Ministry of Energy, Water Resources and Irrigation
- **Kumar Pandey**, Member representing the Private Sector  
And, Chairman of the Board, National Hydro Power Company (NHPC)
- **Khadga Bahadur Bisht**, Member Secretary  
And, Executive Director, MCA-Nepal

##### **1.2. Invitees**

- **Ishwori Prasad Aryal**, Invitee  
And, Joint Secretary, Government of Nepal, Ministry of Finance, International  
Economic Cooperation and Coordination Division (IECCD)
- **Megh Nath Kafle**, Invitee  
Joint Secretary, Government of Nepal, Ministry of Forests and Environment, Forest  
and Watershed Division

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- **Sanjay Poudyal**, Invitee  
Resident Country Director (Acting) – Nepal, Millennium Challenge Corporation

### 1.3. Others Attending

- **Rajib Dahal**  
Chief Legal Officer, Millennium Challenge Account Nepal
- **Satyam Pathak**  
Legal Advisor, Millennium Challenge Account Nepal
- **Nirmal Kumar Khatiwada**  
Chief Financial Officer (CFO), Millennium Challenge Account Nepal

## 2. PRELIMINARY

- 2.1. The meeting of the Board of Directors was duly constituted on 27 July 2022, (2079/04/11 BS) after the notice was served in writing on 21 July 2022, (05/04/2079 BS)
- 2.2. The Chairperson welcomed all the members of the Board of Directors and other invitees attending the meeting.
- 2.3. The Chairperson reported that a quorum was present in accordance with Millennium Challenge Account Nepal Development Board Formation Order, 2074 (2018). The Chairperson apprised the board members on the latest situation at MCA – Nepal.
- 2.4. The Board Members declared that there is no Conflict of Interest (CoI) on any of the Agendas presented by MCA-Nepal, and all the members of the board attended the meeting.
- 2.5. Mr. Khadga Bahadur Bisht, Executive Director, Millennium Challenge Account Nepal updated on current activities of MCA-Nepal and presented the agendas to MCA-Nepal Board of Directors.

## 3. UPDATE ABOUT CURRENT ACTIVITIES OF MILLENIUM CHALLENGE ACCOUNT NEPAL

- Mr. Khadga Bahadur Bisht, Executive Director appraised MCA-Nepal Board of Directors of the major activities undertaken by MCA-Nepal.
- On ETP Project: The Transmission Line land acquisition/resettlement (RAP/LRP) bid has been challenged by one bidder, currently under stage II Bid Challenge (being examined by Level 2 Authority under MCA-Nepal Bid Challenge System). This challenge has delayed work by 6 weeks now. EIF date is linked to Compensation Determination Committee (CDC) formation and determination of Compensation of lands to be acquired. Delay in engagement of the

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Consultant has direct impact on EIF date. However, this delay can be mitigated as of now.

- Following cabinet decision, unregistered land parcels at Ratmate substation has been transferred to MCA-Nepal's Name and remaining land owner's own court case (4 parcels) is in a process of out-of-court settlement.
- Baseline survey and Consultation has been completed for Ratmate LRP implementation.
- On RMP Project: RAP, IEE and Preliminary Design Report Submission has been made. Final design reports including tender documents will be completed by end September 2022. Tendering Process will start after the Final Design Report is received.
- Planning on equipment installation and training will be completed by September 2022 at DoR, QRDC. International Roughness Index Equipment (IRI Class I and Class II) procurement launched. DoR has made request for Falling Weight Deflectometer to collect data in Kalanki-Koteshowr section for planning studies. Training on HDM4 and ASTM has been planned.
- The Board of Directors of MCA-Nepal raised concerns on the delay in physical progress of the Projects and instructed the Executive Director to expedite the remaining activities so as to complete all the preparatory activities before EIF Date. The Board of Directors of MCA-Nepal also instructed the Executive Director to maintain fiscal disciplines in order to control the expenditures of the Project.

#### 4. AGENDA ITEMS AND BOARD'S DECISIONS/RESOLUTIONS

**4.1.** The Chairperson requested the members to consider and, if thought fit, pass a resolution on the following matter:

- (A) Agenda One: Approval of Compact Budget Relocation
- (B) Agenda Two: Approval for authorizing MCA-Nepal to expend as per the approved budget in Redbook for the FY 2079/80
- (C) Agenda Three: Approval of amendment of Independent Audit Service Contract
- (D) Agenda Four: Amendment of contract for SAP Management Information System and Related Services
- (E) Agenda Five: Discussion on Revision of Organizational Structure and change of business title of Employees
- (F) Agenda Six: Approval of rectification of Salary, and authorization to ED to carry out rectification of mathematical errors

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(G) Agenda Seven: Approval of Procurement Plan 6.1

### 4.2. Agenda One: Approval of Compact Budget Relocation

4.2.1. As per section 2.2 of Article 2 of PIA (Program Implementation Agreement), MCA-Nepal will formulate a manual that sets forth principles, mechanisms and procedures to ensure appropriate fiscal accountability. This manual is termed as FAP (Fiscal Accountability Plan). Section 6.1.2 of FAP states that “All reallocations of funds among or between the line items that are identified in the MYFP Summary in Annex II, Exhibit A of the Compact Agreement require approval by the Executive Director, the MCA-Nepal Board, and MCC through the QDRP process.” MCC approval through QDRP process is obtained.

4.2.2. Additional budget is required to meet ongoing procurement process under Electricity Transmission Project/Program Management and Technical Oversight Activity. Due to extension of EIF date, existing budget allocation becomes insufficient in Procurement and Fiscal Management Activities. Based on latest forecast, some of the activities have budget surplus.

4.2.3. Budget reallocation between activities listed in Annex II of the Compact requires Board approval.

4.2.4. MCA-Nepal Board of Directors hereby approves the budget reallocation as follows:

Project	Activity	Reallocation (amount in USD)	
		From	To
Electricity Transmission	Transmission Lines	2,039,000	
Electricity Transmission	Program Management and Technical Oversight		1,040,000
Program Management and Administration	Audit	98,000	
Program Management and Administration	Procurement Management		601,000
Program Management and Administration	Fiscal Management		496,000
<b>Total</b>		<b>2,137,000</b>	<b>2,137,000</b>

### 4.3. Agenda Two: Approval for authorizing MCA-Nepal to expend as per the approved budget in Redbook for the FY 2079/80

4.3.1. MCA-Nepal had requested for the budget for the FY 2079/80 for project activities for the furtherance of the Compact. GoN has allocated the budget through Redbook. GoN has allocated NPR. 17.02 million for capital expenditure and NPR 19.54 million for recurring expenditures from GoN source. Similarly, from MCC source NPR. 8,109.20 million is allocated for capital expenditure and 804.90 million is allocated for recurring expenditure respectively. MCA-Nepal mentioned that the amount budgeted under Redbook is more than the budget presented by MCA-

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Nepal. On this, the board discussed that MCA-Nepal can send a request for budget review after 6 months of current financial year of 2079/80 BS.

**4.3.2.** MCA-Nepal is requesting the Board of Directors for approval to authorize MCA-Nepal to expend as per the approved budget in Redbook for the FY 2079/80.

**4.3.3.** The Board of Directors of MCA-Nepal RESOLVED that the MCA-Nepal Board of Directors hereby authorizes Executive Director (ED) of MCA-Nepal to expend the budget as per Redbook budget allocation.

### **4.4. Agenda Three: Approval of amendment of Independent Audit Service Contract**

**4.4.1.** The Section 3.8 (a) of the Compact requires financial audit of MCC Funding at least on a semiannual basis. Same section further states that Audit will be performed in accordance with Audit Guidelines.

**4.4.2.** Currently MCC has instructed GoN to change the audit timeline from 6 months to 1 year as per the Audit Guidelines.

**4.4.3.** MCA-Nepal is requesting an authorization for Executive Director (ED) of MCA-Nepal to execute the contract amendment to audit contract for change in existing audit timeline from semi-annual to annual and extending last audit period by 6 months to make two audit periods each of one year (01 Apr 2022 to 31 Mar 2023, and 01 Apr 2023 to 31 Mar 2024) due to MCC instructions for change in audit timeline.

**4.4.4.** The Board of Directors of MCA-Nepal RESOLVED that MCA-Nepal Board of Directors hereby authorizes Executive Director (ED) of MCA-Nepal to amend the audit contract from semi-annual to annual, extend the last audit period by 6 months and authorized Executive Director of MCA-Nepal to increase the costs of the Contract to cover the additional period of 6 months.

### **4.5. Agenda Four : Amendment of contract for SAP Management Information System and Related Services)**

**4.5.1.** The SAP Management Information and Related Services Contract was signed on 24 July, 2019. The Implementation of the SAP was designed to be completed in 23 weeks that involved

- Project Preparation Phase (WEEK 2)
- Swift Solution Design Phase in USA (WEEK 4)
- Core team training in the Realization Phase (WEEK 11)
- User Acceptance Testing in the Realization Phase (WEEK 16)
- Final Preparation and Cutover Phase (WEEK 19)

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- Go-Live and Support Phase (WEEK 23)

**4.5.2.** The MCA-Nepal Board of Directors had approved MCA-Nepal procuring the services o for SAP Management Information and Related Services in the third meeting of the Board of Directors held on 4<sup>th</sup> September, 2018. The Consultant is contracted by MCC for developing and deploying SAP-based ERP in all MCA Countries, MCA-Nepal is required to avail the services of this Consultant.

**4.5.3.** As per the signed contract signed, SAP system has to be started (Go Live) within 23 weeks of the contract date. After completion of 11 weeks of implementation activities, the contract was paused due to Compact ratification and funding related issues.

**4.5.4.** Post ratification of the Compact and upon series of discussions with the Consultant, MCA-Nepal received a proposal on 26 July, 2022 for an additional input of 6 weeks for Assessment of the Design Document, Solution Overview Refresher, Configuration validation, Rework associated with newly identified changes to Structure before commencing the remaining activities.

**4.5.5.** The Board of Directors of MCA-Nepal RESOLVED that MCA-Nepal Board of Directors hereby authorizes Executive Director (ED) of MCA-Nepal to amend the Agreement and increase the cost of Contract value with increment of implementation period by another 6 weeks.

### **4.6. Agenda Five : Revision of Organizational Structure and change of business title of Employees**

**4.6.1.** MCA-Nepal is in process of improving its internal working environment. HR Manual section 2.1 that explains, “The organizational structure of MCA-Nepal and any changes thereto is proposed by MCA-Nepal Management Unit, approved by MCA-Nepal Board with NO from MCC.”

**4.6.2.** As per HR Manual, MCA-Nepal has reviewed its organization structure and requests the following for board’s approval:

- Change the job profile of Power Sector Reform Specialist – Regulatory with removal of the word ‘Regulatory’ from Official Position Title – necessary changes are proposed in MCA-Nepal Bylaws.
- Change the Official Position Title of all Assistant Engineers with removal of the word ‘Assistant’ from Official Position Title – necessary changes are proposed in MCA-Nepal Bylaws.
- Addition of 2 (two) more ESP Specialists for Land Acquisition (ESP-LA) to manage complex land acquisition process that is in critical path, and addition of 1 (one) ESP-CA for RMP project to ensure field office presence in Dang where RMP project is being implemented - necessary changes are proposed in MCA-Nepal Bylaws to increase number of employees from 66 to 69.

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**4.6.3.** The Board of Directors of MCA-Nepal RESOLVED THAT the MCA-Nepal Board of Directors hereby approve the Amendment of MCA-Nepal Employees by incorporating the following:

- Change the job profile of Power Sector Reform Specialist – Regulatory with removal of the word ‘Regulatory’ from Official Position Title.
- Change the Official Position Title of all Assistant Engineers with removal of the word ‘Assistant’ from Official Position Title.
- With respect to additional recruitment of staffs, the Board of Directors suggested that MCA-Nepal could hire any additional personnel through short term service contracts by following applicable MCC Program Procurement Guidelines after identifying the necessity of additional personnel, and not to change the approved vacancies and organogram structure of MCA-Nepal.

### **4.7. Agenda Six: Approval to adjust and Pay Salary in case of 1 Employee – To rectify mathematical error in Salary Computation**

**4.7.1.** 26<sup>th</sup> Board Meeting of MCA-Nepal held on 15/03/2022 had approved the Implementation of the Consequences of Performance Appraisal, 2021 for the Performance Year October, 2020 – September, 2021 of MCA-Nepal Employees

**4.7.2.** The independent Fiscal Agent (FA) detected the computational error in case of 1 employee resulting the underpayment of Salary from January, 2022. Therefore, MCA-Nepal requests Board’s approval to rectify this computational errors and pay as per the new Salary Structure along with unpaid arrears. The Board has approved of it.

### **4.8. Agenda Seven : Agenda Seven: Approval of Procurement Plan 6.1**

**4.8.1.** MCC Program Procurement Guidelines (PPG) required to be followed by MCA-Nepal as a condition of the Compact states that MCA-Nepal shall periodically prepare a Procurement Plan for acquiring goods, works, and consultant and non-consultant services needed to implement the Compact. Compliance, satisfactory to MCC, with the approved Procurement Plan shall be a condition precedent to MCC disbursements or payments.

**4.8.2.** MCC Program Procurement Guidelines (MCC PPG) states that MCA-Nepal shall periodically prepare a Procurement Plan for acquiring goods, works, consultant, and non-consultant services needed to implement the Compact. Compliance, satisfactory to MCC, with the approved Procurement Plan shall be a condition precedent to MCC disbursements or payments.

**4.8.3.** The approved Procurement Plans require periodic revisions and amendments due to ongoing procurement for various projects. Therefore, Procurement Plan Version 6.0 is submitted for Board’s approval.

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4.8.4. After considering the future activities of MCA-Nepal, the Board of Directors approved the amended Procurement Plan Version 6.0 after assessing the detailed back-up documents forming part of the Procurement Plan.

### 5. AGENDAS FOR DISCUSSION/ INFORMATION

#### 5.1. Reallocation of GoN contribution (Information Agenda)

5.1.1. Schedule 3 of Program Implementation Agreement (PIA) stipulates anticipated GoN contribution. As per this schedule, pre-EIF contribution is used for ETP (Electricity Transmission Project). During the time of ratification of Compact by the parliament of Nepal, there were funding issues to meet expenses for some of the activities of RMP (Road Maintenance Project) and P&A (Program Management and Administration). During such period, funding gap in those activities were met from GoN fund through Redbook allocation.

5.1.2. Following table shows utilization of fund in RMP and P&A activities during that period:

<i>Amount in USD</i>		
Description	Total GON Budget	Reallocation
<b>Electric Transmission Project (ETP)</b>	<b>40,000,000</b>	<b>(6,584,842)</b>
<b>Road Maintenance Project (RMP)</b>	-	<b>570,848</b>
Technical Assistance Activity		560,215
Strategic Roads Maintenance Works Act	-	10,632
<b>Monitoring &amp; Evaluation</b>	-	-
Monitoring & Evaluation	-	-
<b>Program Management</b>	-	<b>6,013,994</b>
MCA-Nepal Program Admin Activity		4,781,101
PA/FA/Audit Activity	-	1,232,893
<b>Grand Total</b>	<b>40,000,000</b>	<b>-</b>

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### **5.2. Capital Gain Tax on Land acquisition (Information Agenda)**

**5.2.1.** As per 19<sup>th</sup> BoD meeting decision dated 18 September 2020, capital gain tax on compensation paid while acquiring land from PAP in Ratmate, Nuwakot was borne by MCA-Nepal. Decision to bear capital gain tax by MCA-Nepal was done taking into account policy of MCC Environmental Guidelines and IFC (International Finance Corporation) PS (Performance Standard) 5.

**5.2.2.** OAG (Office of Auditor General) through its audit report for the FY 2077/78 has raised this issue as non-compliance of Nepalese Income Tax Act 2058. Total amount of capital gain tax under issue is NPR. 42,367,329.45

**5.2.3.** MCA-Nepal will work with Ministry of Finance to respond to Office of Auditor General's comments on the tax issues.

### **5.3. OAG Audit Report for the FY 2077/78 (Information Agenda)**

**5.3.1.** Office of Auditor General (OAG) has conducted annual audit of MCA-Nepal for the FY 2077/78. It has submitted final audit report to MCA-Nepal. MCA-Nepal will work with Ministry of Finance to respond to Office of Auditor General's comments on the activities undertaken by MCA-Nepal.

### **5.4. Compact Budget and Scope Modification (Discussion Agenda)**

**5.4.1.** In MCA-Nepal's analysis there has been price rise in major commodity (Copper, Aluminium, Steel, Zinc etc.) the Cost of transmission tower, cable, substation plant & equipment and Civil Works have gone up to 30%.

**5.4.2.** NEA needs New-Butwal S/S to Nepal-India Border section of the 18 Kms. transmission line to be completed within by 24-30 months from now, but MCA-Nepal's procurement and implementation will need approx. 4 years from now. In this gap NEA will make revenue loss due to (1) energy spillage in the system (2) transmission service agreement payment.

**5.4.3.** Considering these, some modification on the scope is required and MCA-Nepal is working with NEA on Butwal-Border line handover and keep RMP project within original budget. MCA-Nepal and NEA have already exchanged a letter to discuss about the construction timeline of this 18 Kms. Transmission Line.

**5.4.4.** On this topic, NEA Managing Director (one of the board members of MCA-Nepal) also highlighted the significance of New-Butwal S/S to Nepal-India Border Section of the 18 Kms. Transmission Line (TL) and stressed that this section is highly significant to NEA considering the PPAs (Power Purchase Agreements) it has entered with many Power Producers. NEA Managing Director stated that NEA would be in a position to construct this Section to match the Construction timeline with India Section of Transmission Line from Nepal-India border to Gorakhpur, India.

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The representative from Ministry of Energy, Water Resources and Irrigation (one of the board members of MCA-Nepal) also highlighted on steps taken by Ministry of Energy, Water Resources and Irrigation (MoEWRI) to expedite this Section of Transmission Line. All the Board Members principally agreed that this section of the line has to be expedited and it is better if NEA does construct it by the time India section of the cross-border line is completed. The Board Chairperson asked MCA-Nepal, NEA and MoEWRI representatives and board members to come to an early conclusion on this issue so that Project timeline can be maintained within the Compact period as well as there would be matching in construction timeline between Nepal and India sections. Once NEA and MCA-Nepal agree on the transfer of this Section to NEA, appropriate government process will be initiated to communicate this to MCC.

### 5.5. Rebranding of ETP and RMP Projects

5.5.1. MCC is carrying out due diligence for rebranding ETP and RMP Project under the Compact for Broader ownership among the Nepali people, minimizing current technicality and promoting familiarity.

5.5.2. This will be one-time change for improving the brand image of the program for the rest of its life in Nepal.

## 6. RECORDING OF THE DISCUSSIONS AND DECISIONS

6.1. RESOLVED THAT the Board of Directors directs the Executive Director to record these minutes with the minute book of Millennium Challenge Account Nepal and to submit the synopsis of such minutes for publication on the website of Millennium Challenge Account Nepal within two (2) weeks from the date of these Minutes.

## 7. CLOSE

There being no further business the meeting was then closed at 5.00 PM.

This minute is prepared and signed on: 27/07/2022.

Minutes Prepared by: \_

Rajib Dahal,  
Chief Legal Officer