

# **Ratification of the MCC Nepal Compact: Domestic Political Implications**

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## **Summary**

*In February 2022, the Nepal government ratified the controversial Millennium Challenge Corporation Nepal Compact, which had been on hold for five years. This paper looks at the series of events that led to its ratification. More importantly, it discusses the implications of this move on Nepal's domestic politics and the upcoming elections.*

## **Introduction**

On 27 February 2022, the much-debated Millennium Challenge Corporation (MCC) Nepal Compact was ratified by Nepal's parliament just a day before of the deadline set by the United States (US).<sup>1</sup> The ruling alliance, led by the Nepali Congress, which includes the Communist Party of Nepal [CPN] (Maoist Centre), Janata Samajbadi Party and the CPN (Unified Socialist), under the leadership of Prime Minister Sher Bahadur Deuba, voted in favour of the bill.<sup>2</sup> However, due to differences among the coalition partners over the MCC, the bill was passed with an "interpretative declaration".<sup>3</sup> Earlier, on 16 February 2022, the CPN (Maoist Centre) had threatened to quit the government if the bill was passed without amendments.<sup>4</sup>

## **What is the MCC Nepal Compact?**

The MCC is an independent aid agency of the US that assists developing countries in their economic development.<sup>5</sup> In 2017, then Finance Minister of Nepal Gyanendra Bahadur Karki and the MCC Acting Chief Executive Officer Jonathan Nash officially signed the MCC Nepal Compact.<sup>6</sup> The main focus of the programme is to uplift Nepal's energy and roads sectors. Under this Compact, about 312 kilometres of 400 KV transmission lines in Nepal's Lapsipedi-Galchhi-Damauli-Sunawal corridor are likely to be constructed, along with three

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<sup>1</sup> Official Press Statement, "MCC Statement on Nepal Compact Ratification", Millennium Challenge Corporation, United States, 1 March 2022, <https://www.mcc.gov/news-and-events/release/stmt-030122-nepal-compact-ratification/>.

<sup>2</sup> "MCC ratified by House of Representatives, at last", *The Himalayan Times*, 27 February 2022, <https://thehimalayantimes.com/nepal/mcc-ratified-by-house-of-representatives-at-last>.

<sup>3</sup> Ibid.

<sup>4</sup> "Deuba backtracks on MCC compact tabling after Maoist warning to quit government", *The Kathmandu Post*, 16 February 2022, <https://tkpo.st/3oObE3e>.

<sup>5</sup> "About MCC", Millennium Challenge Corporation, United States, <https://www.mcc.gov/about>.

<sup>6</sup> "Nepal Compact Signing Ceremony", Millennium Challenge Corporation, United States, <https://www.mcc.gov/news-and-events/event/signing-091417-nepal>.

substations.<sup>7</sup> The transmission lines will not only help in the domestic distribution of power but also in exporting electricity to the other countries in the region, especially India.<sup>8</sup>

Additionally, the MCC proposes for the maintenance of 300 kilometres of roads in various alignments of Mechi, Koshi, Tribhuvan Rajpath, the East West highway and Sagarmatha.<sup>9</sup> For all these projects under the MCC, the US will bear the cost of US\$500 million (S\$681 million) and Nepal will provide US\$130 million (S\$177 million), amounting to a total of US\$630 million (S\$858 million) worth of projects.<sup>10</sup> This amount will further be split into US\$500 million (S\$681 million) for the energy sector and US\$130 million (S\$177 million) to maintain a road network.<sup>11</sup> In short, the MCC Nepal Compact is seen as a big boost for Nepal's trade and economy and increase employment opportunities in the country. Despite the positive prospects of the Compact for Nepal's development, as underlined by its supporters, the MCC has been widely debated, termed "controversial" and took five long years to be ratified by the country's parliament.

## The Road to Ratification

After Deuba assumed office in July 2021, the push for ratification of the Compact gained momentum. However, the CPN (Maoist Centre), led by Pushpa Kamal Dahal, popularly called Prachanda, was not in favour of the ratification.<sup>12</sup> The US made several attempts to convince Kathmandu to push for its ratification. The US Secretary of State Antony J Blinken called Deuba in July 2021 to discuss bilateral cooperation and the fight against COVID-19. During the phone call, Blinken also discussed the MCC with Deuba.<sup>13</sup> Also, in September 2021, the MCC's Vice President Fatema Z Sumar visited Nepal to convince the political leaders from both the ruling coalition and the opposition to ratify the Compact.<sup>14</sup> Additionally, Washington pressured Kathmandu to reach a decision by 28 February 2022.<sup>15</sup>

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<sup>7</sup> "Electricity Transmission Project", Government of Nepal, Ministry of Finance, Millennium Challenge Account Nepal Development Board, <https://mcanp.org/en/projects/electricity-transmission-project/>.

<sup>8</sup> Prithvi Man Shrestha, "Transmission lines' worth lost in the din of charged-up MCC row", *The Kathmandu Post*, 9 March 2022, <https://tkpo.st/3oVt3ad>.

<sup>9</sup> Ashmita Rana, "The MCC Debate and the Heat of Indo-Pacific Geopolitics", Kalinga Institute of Indo-Pacific Studies, 14 October 2021, <http://www.kiips.in/research/the-mcc-debate-and-the-heat-of-indo-pacific-geopolitics/>.

<sup>10</sup> Gopal Sharma, "Explainer: Why is a US infrastructure grant behind protests in Nepal?", *Reuters*, 24 February 2022, <https://www.reuters.com/world/asia-pacific/why-is-us-infrastructure-grant-behind-protests-nepal-2022-02-24/>.

<sup>11</sup> "Nepal Compact", Millennium Challenge Corporation, United States, <https://www.mcc.gov/where-we-work/program/nepal-compact>.

<sup>12</sup> "Maoist Centre says it is against MCC compact tabling", *The Kathmandu Post*, 16 February 2022, <https://tkpo.st/34D1KuF>.

<sup>13</sup> "US Antony Blinken Calls Nepal's New PM Deuba To Discuss Bilateral Ties And COVID-19", *Republic World*, 28 July 2021, <https://www.republicworld.com/world-news/us-news/us-antony-blinken-calls-nepals-new-pm-deuba-to-discuss-bilateral-ties-and-covid-19.html>.

<sup>14</sup> "MCC Vice President Fatema Sumar visits Nepal", United States Embassy Kathmandu, 9 September 2021, <https://np.usembassy.gov/media-note-mcc-vice-president-fatema-sumar-visits-nepal/>.

<sup>15</sup> Ram Kumar Kamat, "US sets Feb 28 deadline for MCC ratification", *The Himalayan Times*, 7 February 2022, <https://thehimalayantimes.com/nepal/us-sets-feb-28-deadline-for-mcc-ratification>.

The US' Assistant Secretary of State Donald Lu, during his phone call with Deuba, warned that the failure to do so would lead the US revisiting its relationship with Nepal.<sup>16</sup>

In Nepal, supporters of the MCC believe that it will help to boost the country's economy. The critics (mainly the Maoists), on the other hand, are of the view that the MCC is a part of the US' larger Indo-Pacific strategy to counter China, and that Washington is looking to use Kathmandu for its strategic and military advantages.<sup>17</sup> They also believe that Nepal will lack adequate supervision over the board overseeing the projects. Moreover, they perceive the clauses of the Compact as an attempt to undermine Nepal's sovereignty. To get the US' clarifications on the mentioned points, Nepal's finance ministry sent a letter with a list of questions to the MCC headquarters in Washington in September 2021.<sup>18</sup> The list, among other things, questioned if the Compact was a part of the US' Indo-Pacific strategy; whether it would have a security impact on Nepal; who would audit the project; and where the Compact might conflict with Nepal's Constitution.<sup>19</sup>

In response, the MCC headquarters sent a letter on 8 September 2021, which stated that the Compact was independent of Washington's Indo-Pacific strategy. The Nepal government would also maintain the project's records and documents and Nepal's Constitution would take precedence over the Compact.<sup>20</sup> On her visit to Kathmandu in September 2021, Sumar corroborated these clarifications by stating that the programme has no military component and will not undermine Nepal's sovereignty.<sup>21</sup> She met with political leaders from the ruling alliance and various opposition parties, including K P Sharma Oli, former Prime Minister and now leader of the opposition, CPN (Unified Marxist-Leninist), to lobby for support for the approval of MCC.<sup>22</sup> However, the CPN (Maoist Centre) stood firm in its stance against tabling the agreement in its original form.

Despite opposition from its alliance partner, the Nepali Congress pushed for the ratification, even at the cost of breaking the alliance. This was evident when Nepali Congress leader

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<sup>16</sup> Shirish B Pradhan, "US says will review ties with Nepal if it failed to ratify MCC pact by Feb 28 deadline", *The Print*, 11 February 2022, <https://theprint.in/world/us-says-will-review-ties-with-nepal-if-it-failed-to-ratify-mcc-pact-by-feb-28-deadline/828391/>.

<sup>17</sup> Santosh Sharma Poudel, "Nepal's MCC Debate Reflects Flaws in Its Decision-Making", *The Diplomat*, 18 February 2022, <https://thediplomat.com/2022/02/nepals-mcc-debate-reflects-flaws-in-its-decision-making/>.

<sup>18</sup> Prithvi Man Shrestha and Anil Giri, "MCC responds to Nepal's concerns ahead of its top officials' arrival", *The Kathmandu Post*, 8 September 2021, <https://tkpo.st/3yUPEWz>.

<sup>19</sup> Ibid.

<sup>20</sup> "Responses by Millennium Challenge Corporation to Consolidated Clarification Questions from Government of Nepal Regarding the Millennium Challenge Compact", Millennium Challenge Corporation, United States of America, 8 September 2021, <https://drive.google.com/file/d/156L1jGJgoKrFnRrVlXrz9-dz-9GSaYd3/view>.

<sup>21</sup> "MCC Vice President Fatema Sumar visits Nepal", U.S. Embassy Kathmandu, 9 September 2021, <https://np.usembassy.gov/media-note-mcc-vice-president-fatema-sumar-visits-nepal/>.

<sup>22</sup> Amit Ranjan, "The MCC Nepal Compact A Victim of Political Divisions", Institute of South Asian Studies (ISAS) Insight No. 686, 20 September 2021, <https://www.isas.nus.edu.sg/papers/the-mcc-nepal-compact-a-victim-of-political-divisions/>.

Ramachandra Poudel stated during a press conference on 24 February 2022 that the ruling coalition could break up if the allied parties did not support the MCC.<sup>23</sup>

After many rounds of meetings and much deliberation, the Compact was finally ratified on 27 February 2022 with 12 interpretative declarations, which are:<sup>24</sup>

1. Nepal declares that being a party to the Compact, Nepal shall not be a part of any US strategy, military or security alliance including the Indo-Pacific Strategy.
2. Nepal declares that the Constitution of Nepal, being the fundamental law of the land, shall prevail over the Compact and other associated agreements.
3. The MCC Funding and Program Assets do not and shall not obligate Nepal to comply with the current or future US laws or policies for any purpose other than the use of the MCC Funding.
4. Nepal declares that the conduct of activities of Millennium Challenge Account Nepal Development Board (the MCA-Nepal) shall be governed by the laws of Nepal and regulated by the provisions of the Compact.
5. Nepal declares that MCC shall not have ownership over the Intellectual Property and that Nepal shall own and fully enjoy all the Intellectual Property created under the Compact program.
6. Nepal declares that Implementation Letters under the Compact shall be implemented within the scope of the Compact.
7. Nepal declares that, in addition, the audits of all the activities and funds of MCA Nepal shall be conducted by Office of the Auditor General in accordance with prevailing laws of Nepal.
8. Nepal declares that in addition to Nepal's right to terminate the Compact without cause by giving 30 days' prior notice, Nepal has the right to terminate the Compact by giving 30 days' prior notice in case the activities/program under the Compact violate Nepal's laws or policies.
9. Nepal declares that provisions under the Compact which survive after the expiration, suspension or termination of the Compact shall only relate to the Compact program and the use of MCC Funding including for evaluation of the projects under the Compact, audits and settlement of taxes.
10. The programs under the Compact shall be implemented by complying with the Compact and in accordance with the domestic laws of Nepal.
11. Nepal declares that the Electricity Transmission Project including all movable and immovable assets and land associated with the project shall be owned by the Government of Nepal or entities of the Government of Nepal.

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<sup>23</sup> Rastriya Samachar Samiti, "Ruling coalition can break if no support in endorsing MCC: NC leader Poudel", *The Himalayan Times*, 24 February 2022, <https://thehimalayantimes.com/nepal/ruling-coalition-can-break-if-no-support-in-endorsing-mcc-nc-leader-poudel>.

<sup>24</sup> "What's in 12-point interpretative declaration on MCC?", *Setopani*, 27 February 2022, <https://en.setopati.com/political/158036>.

12. Nepal understands that the responses in the letter sent by the MCC on 8 September 2021, as mentioned above, shall aid in the interpretation and the implementation of the Compact.<sup>25</sup>

## Implications of the Ratification

By ratifying the Compact, Deuba has hopes of garnering a strong support base in the MCC-supporting constituency while also showcasing that he is not supportive of Nepal's tilt towards China, as the MCC is widely perceived as a counter to the Beijing-led Belt and Road Initiative in the country. As for the two communist forces in the alliance – CPN (Maoist Centre) and CPN (Unified Socialist) – it has become clear, at least for now, that their main motive is to keep the alliance intact. They have chosen to take the middle ground as they do not want to be seen as too supportive of China or anti-US.

However, a section of their supporters is seemingly unhappy with the ratification of the MCC. The student wings of the ruling coalition, the CPN (Maoist Centre) and the CPN (Unified Socialist), joined others in protesting against the MCC before it was put for ratification in the parliament.<sup>26</sup>

On 4 March 2022, Prachanda defended his decision to support the ratification of the MCC and said that if the party had refused to support the agreement, the coalition government at the centre and provincial levels would have been dissolved.<sup>27</sup> The dissolution could have sabotaged the Comprehensive Peace Agreement,<sup>28</sup> a peace accord signed between the Nepal government and the CPN (Maoist Centre) in 2006.<sup>29</sup> The passage of the agreement with the interpretative declaration, according to Prachanda, was the only way things could have worked out and was the only middle way available.<sup>30</sup>

Although the MCC has been ratified, the interpretative declarations and the protests may create ripples in the coalition government. The magnitude of such ripples will determine the future of the Deuba-led coalition government. The coalition partners will decide their future course of action by weighing the respective electoral gains and losses in the aftereffects of the MCC ratification.

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<sup>25</sup> "Responses by Millennium Challenge Corporation to Consolidated Clarification Questions from Government of Nepal Regarding the Millennium Challenge Compact", Millennium Challenge Corporation, United States of America, 8 September 2021, <https://drive.google.com/file/d/156L1jGJgoKrFnRrVlxr9-dz-9GSaYd3/view>.

<sup>26</sup> "Coalition partners' student wings protest against MCC", *The Kathmandu Post*, 18 February 2022, <https://kathmandupost.com/visual-stories/2022/02/18/coalition-partners-student-wings-protest-against-mcc>.

<sup>27</sup> "Dahal defends decision to back MCC agreement", *The Himalayan Times*, 5 March 2022, <https://thehimalayantimes.com/nepal/dahal-defends-decision-to-back-mcc-agreement>.

<sup>28</sup> Ibid.

<sup>29</sup> Comprehensive Peace Accord signed between Nepal Government and the Communist Party of Nepal (Maoist) by the United Nations Peacemaker, 22 November 2006, <https://peacemaker.un.org/nepal-comprehensiveagreement2006>.

<sup>30</sup> Ibid.

## Conclusion

After the MCC was ratified, debates on its objectives and the stances of the different political parties have concluded. The Nepali Congress has shown itself to be a supporter of the MCC while the Maoists have taken the middle path. After the ratification, Oli said that the MCC Nepal Compact agreement was “a deliberate misinformation campaign” launched to topple his government.<sup>31</sup> The coalition partners raised the issue of the government’s support for the MCC as one of the reasons to break the alliance that led to the downfall of the Oli-led government in July 2021.<sup>32</sup> In such a situation, it will be interesting to observe how the MCC issue is raised and publicly debated in the forthcoming national elections and whether this move will garner electoral gains or losses for the political parties.

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<sup>31</sup> “MCC was a deliberate misinformation campaign launched to topple UML govt: Oli”, *myRepublica*, 1 March 2022, <https://myrepublica.nagariknetwork.com/news/mcc-was-a-deliberate-misinformation-campaign-launched-with-the-aim-of-ousting-the-uml-government-oli/>.

<sup>32</sup> Santa Gahar Magar “MCC row rocks Nepal’s ruling coalition” *Nepali Times*, 9 September 2021, <https://www.nepalitimes.com/latest/mcc-row-rocks-nepals-ruling-coalition/>.