

Politics on Millennium Challenge Corporation in Nepal: An Analytical Study

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ABSTRACT

The Millennium Challenge Corporation (MCC) is an ambitious American initiative that was established internationally with the purpose of infrastructure development in the least developed nations, but they secretly described it as a vital part of the American Indo-Pacific strategy. Nepal would have to depend on China for financial support for growth and cut itself off from the rest of the world if the MCC was not approved by the parliament. In Nepal, China wants to avoid external influence. China has always wanted to have its influence in Nepal by indicating its security interests. China was against the MCC and the reason for wanting the Nepalese parliament not to approve the MCC project was that the US could not do any conspiracy against itself through the MCC. But they signed the MCC agreement in 2017 and it is now up to the federal parliament of Nepal to ratify it. The main purpose of this article is to discover why MCC is more suitable for sustainable development in Nepal.

Keywords: Millennium Challenge Corporation (MCC); Nepal Communist Party (NCP); Infrastructure development; External interest

INTRODUCTION

The Millennium Challenge Corporation (MCC) is a forward-thinking, self-contained US foreign help organization whose aim is to help to develop nations overcome poverty by promoting economic growth. MCC is changing the conversation about how to best give rational US foreign help by focusing on outstanding policies, country ownership, and outcomes. It was founded by the US Congress in January 2004 with wide bipartisan support. MCC forms partnerships with some of the world's poorest nations to promote good governance, economic liberty, and citizen investment. As of September 2017, MCC has cooperation in 46 nations throughout the globe, including Nepal. MCC has only donated money to Nepal, South Asia's lone nation. Sri Lanka is the next country in line after Nepal. The MCC agreement with Nepal marks the beginning of a new era in the US-Nepal relationship. The MCC Nepal Compact seeks to cut transportation costs and enhance power availability in Nepal. MCC sees energy and resource conservation as a reflection of its core principles, a commitment to long-term sustainability, and a duty to be good stewards of the funding it receives from the US government. At its headquarters and in its field offices, they devote the agency to following all relevant environmental and

energy standards, regulations, and executive orders, as well as reducing expenses and energy usage wherever workable. In the future, MCC plans to address the environmental implications of energy, transport, and total consumption systematically.

LITERATURE REVIEW

In this article, the researcher used both primary and secondary sources. A qualitative method was used to create the present article. From the time the government signed the MCC project in 2017 until the parliament approved it, the researcher has analyzed the double character shown by the political parties of Nepal. The researcher analyzed the data with the support of data got from various sources. Some books, journals, newspapers and websites and other information sources related to MCC have been used in preparing this article, which is descriptive and analytical.

MCC differs from a regular grant because it requires nations to achieve certain requirements to be funded. As a result, the grant becomes more competitive. Countries must increase their transparency and improve their governance. This will act as a springboard for future growth. MCC did not result in a substantial improvement in a broad variety of indicators,

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according to Johnson, Goldstein-Plesser, & Zajonc, who performed a cross-country analysis. According to the same survey, prospective MCC grantees reformed by approximately 25% on various indicators as compared to non-MCC-eligible nations. According to a survey evaluation by Parks & Rice, the qualifying requirements have a considerable influence on subsequent adjustments. Indicators such as "Corruption Control" and "Fiscal Policy and Business Startup" are quite beneficial. You should take this finding with a grain of salt since the poll respondents are mostly high-ranking government officials and US officials. Receiving an MCC award sends a strong statement about good governance to other donors. Dreher, Nunnenkamp, & Hler, showed that multilateral help from other donor nations has a positive and substantial impact on MCC grant recipients.

MCC in Nepal

In 2013-2014, the MCC "conducted a diagnostic study in Nepal" [1] to identify the areas where foreign aid could benefit Nepal and its people. Nepal was noted as a hydropower-rich nation, and supporting this industry would spur the nation's economic development. Another issue that needs urgent development and support in Nepal is its weak transportation infrastructure. Meanwhile, Nepal's ongoing efforts to establish democracy and protect its vast socio-political and economic potential served as the primary criterion for its selection for the MCC. In December 2014, Nepal met the requirements to be eligible for the MCC grant under the 'compact' category. MCC had also conducted feasibility studies to identify the projects from 2016 to 2017 and it submitted the report in November 2016, according to the statement. The US granted a USD 500 million grant to Nepal after sufficient conversations between the MCC Board and GoN, and they ultimately completed the deal in September 2017.

With its country office in Kathmandu, MCC supported the construction of the power transmission lines. As per the Embassy of Nepal in the US, the "MCC support goes to construct about 300km 400KV transmission lines from Lapsipedi-Galchhi-Damauli-Sunwal corridor along with three substations and maintenance of about 300 km Roads in the various alignment of Mechi, Koshi, Sagarmatha, Tribhuvan Rajpath, and East-West highway" [2]. The MCC will provide USD 500 million as a grant, and Nepal will contribute USD 130 for this \$630 million project, of which USD 500 will go to the energy sector and USD 130 to the road sector. In addition, the construction of new cross-border transmission lines and the use of Nepal's hydropower potential would be the main objectives of the USD 500 million grant from MCC. The grant's other objectives include strengthening the energy sector and maintaining road quality, increasing electricity availability and reliability, and facilitating cross-border electricity trade between Nepal and India—helping to spur investments, accelerate economic growth, and reduce poverty.

Controversial issues regarding MCC

MCC has been the subject of debate since after GoN signed it

in September 2017. The resistance to the gift came from the political parties, particularly the Maoists, who said it was a component of the US-led Indo-Pacific Strategy. Along with the Indo-Pacific Strategy, domestic legal challenges, issues with intellectual property rights, and auditing of expenditures made possible by the MCC grant were some of the other main concerns. China firmly opposed the MCC in Nepal, besides its internal issues. Despite these reservations, "the Maoists and other members of the government's coalition eventually supported the MCC by affixing a 12-Point Interpretive Declaration" [3]. Days before the MCC voted to ratify it, the Nepalese Parliament adopted the declaration. In the meantime, the following points have been covered:

Indo-Pacific strategy

The US, Japan, India, and Australia's Quad members are offering strong opposition to China in the current international negotiations on the Indo-Pacific Strategy, which is a commitment to an Indo-Pacific that is free, connected, prosperous, secure, and resilient. To join the grouping, the United States is also requesting help from other non-coastal nations like Nepal. Nepal is still adhering to its autonomous, impartial foreign policy. "It aims to achieve these objectives based on the UN Charter, non-alignment, the principle of Panchsheel, international law and universal norms, and by remaining active to defend the sovereignty, indivisibility, national independence, and national interest" [4] as per Article 51 (k) of the new constitution.

Meanwhile, the contention arises in Section 2.7 of the MCC Agreement between the United States and Nepal. Titled Limitations on the Use of MCC Funding, Section 2.7 reads, "(Nepal) government will ensure that MCC Funding is not used for any purpose that would violate United States law or policy, as specified in this Compact or further notified to the Government in writing" [5]. There are no rules outlined in this area that Nepal is required to abide by. Instead, it established a broad stipulation that takes the US-led Indo-Pacific Strategy against China into account. Accepting Section 2.7 of the MCC would irritate China, since Nepal wants to maintain cordial relations with that country. As a result, Nepal's agreement, as stated in Section 2.7 of the MCC Agreement, "not to violate US laws and policies in utilizing the MCC monies," is an unofficial acceptance and support of the Indo-Pacific Strategy by Nepal. The first sentence of the 12-Point Interpretive Declaration appended to the Parliament's adoption of the MCC reads: "Nepal declares that by being a party to the Compact, Nepal shall not be a part of any United States' strategic, military or security alliance including the Indo-Pacific Strategy" [6].

It is interesting to note that the MCC was not used to interpret the Indo-Pacific Strategy until US Assistant Secretary David J. Ranz visited Nepal on May 15, 2019. Ranz allegedly said during his visit that MCC was one of the most significant US Indo-Pacific Strategy efforts being carried out in Nepal. The purported comments made by David J. Ranz in early 2019 have fueled a discussion of the MCC's feasibility in Nepal. In Nepal, a remark from a high-ranking US official was taken seriously.

The constitution of Nepal and domestic laws

It has directed the second significant criticism at the legislation that controls MCC financing. According to Article 7 (1) of the MCC Agreement, for this Compact to take effect, the government will move swiftly to fulfill all of its domestic criteria. The Parties know that once this Compact becomes effective, Nepal's internal laws would take a backseat. This clause of the accord has drawn a lot of criticism from the political parties since it gives the Compact the authority to supersede domestic legislation once it comes into effect. Because the Constitution of Nepal is the basic law of the nation, it shall take precedence over the Compact and any related agreements, as stated in Article 2 of the 12-Point Interpretive Declaration.

Intellectual property rights

A specified amount of Intellectual Property Rights (IPR) will be used by MCC while establishing projects, producing necessary commodities, conducting scientific research, and producing its outputs in Nepal as part of MCC support. The Government of Nepal granted to MCC a perpetual, irrevocable, worldwide, fully paid, assignable right and license to practice or have practiced on its behalf (including the right to produce, reproduce, publish, repurpose, use, store, change, or make available any portion or portions of Intellectual Property as MCC sees fit in any medium, now known or). This provision of the agreement should ensure that these rights remain the IPR of the MCC. As the MCC is a grant of aid given to Nepal, the opposition groups opposed to it have contended that these rights must belong to Nepal. They agreed IPRs must be solely provided to the host nation, since all development operations would occur within Nepal's sovereign territory. As a result, Article 5 of the 12-Point Interpretive Declaration vehemently rejects granting MCC such accommodations and rights. The statement further states that "Nepal will own and fully enjoy all intellectual property developed under the Compact project and that MCC shall not have ownership over the Intellectual Property".

The core principles of MCC

Even while the MCC does not explicitly have a purpose of promoting democracy, it built our organization on a set of guiding principles that supported a certain method of handling domestic institutions. A greater understanding of the democratic process is necessary given the fundamental focus on policy execution, nation ownership, accountability, and economic prosperity [7].

Policies matter: According to research and experience, help works best in nations that are committed to democratic and accountable government and solid, predictable policy environments. To identify lower-income nations that are most dedicated to these principles, it created our selection procedure. The ongoing assessment of each nation's policies throughout the selection process strengthens MCC's awareness of changes in democratic reform or retrenchment.

Country ownership: MCC collaborates with eligible nations, who are to determine the biggest obstacles to their development, putting together their compact proposal with input from the

public, political, and private sector actors, and implementing Compact programs after it has approved them. High-level involvement from the host government, as well as from civil society and other domestic stakeholders, is necessary for participation in the MCA program.

Accountability: One needs to specify significant domestic responsibility in everything from necessary public discussions during the Compact's preparation to thorough monitoring and evaluation plans to publicly posted outcomes reporting. The necessity for MCC to be responsible for the use of US taxpayer funds, as well as the realization that accountable help is often spent more effectively, are some of the driving force behind this. However, domestic openness also strengthens government responsibility to individuals and groups of individuals.

Focus on economic results: Although Compacts and all of its implementation measures should foster the sort of sustainable economic development that lowers poverty, the selection process identified policies that are positively related to economic growth. Accordingly, MCC must push for implementing the Compacts without weakening the democratic principles or procedures, which have a strong correlation to economic success.

It is often said that it constructed these fundamental ideals on the lessons of the past when they are described. In reality, putting these ideas into practice requires us to inspect the work of the democratic community and the expanding body of economic research on the significance of institutions for MCC's involvement with domestic democratic institutions in our partner countries.

Initiatives of MCC in Nepal

Nepal opted to join the Millennium Challenge Compact in 2017. There are two big projects totaling 630 million dollars: a road project and an electrical project (\$500 million from MCC and \$130 million from the Nepal government). It expected to help around 5.3 million families with these programmes.

The MCC's initial endeavor in Nepal was sponsored by the Nepali Congress. According to Rashtriya Jana Morcha Party politician Durga Paudel, the MCC should not be implemented since it is a member of the IPS, which she defines as a NATO-style military alliance. Nepal Workers and Peasant Party legislator Prem Suwal said that the MCC would reject Nepal's non-alignment policy. Several Nepalese politicians have screamed foul, stating that the IPS is a US military alliance and that ratifying the MCC by the parliament involved joining the US-led military alliance. One of the MCC's stipulations, which will provide the US with the upper hand in auditing project-related expenses, has also been criticized. Despite the problems and the MCC's relationship with IPS, the Nepalese government looks to be in favor of ratifying the MCC, despite the challenges.

DISCUSSION

Socio-environmental initiatives of MCC

MCC uses a multidisciplinary and collaborative approach with its partner countries to include globally recognized

environmental and social sustainability concepts in the design and execution of its programmes. Country partners work with MCC to promote long-term economic growth, eliminate environmental and social risks, and increase environmental and social sustainability *via* compact-funded initiatives. The MCC idea is strongly reliant on effective environmental and social management. It aimed MCC expenditures at maximizing the benefits of poverty reduction while minimizing negative social and environmental repercussions that might compromise programme objectives. According to MCC's foundation act, "it is illegal to provide aid that is likely to create a major environmental, health, or safety hazard. The International Finance Corporation's (IFC) Environmental and Social Sustainability Performance Standards were officially included in MCC's Environmental Guidelines in June 2012" [8]. Every compact and threshold programme in the MCC has both environmental and social challenges and opportunities.

Economic initiatives of MCC

Evidence suggested that nations that have dramatically decreased poverty in recent decades have also achieved considerable economic development. This strong link arises because economic development is about creating money, and a lack of income creation is one of the main causes of chronic poverty, particularly in poorer countries.

MCC does not assume that policies that encourage growth would always reduce poverty; instead, it analyzed the expected distributive consequences of programmes and, if workable, identified the potential beneficiaries and the program's effect on poverty. MCC's ultimate purpose is to support programmes that raise the wages of sufficient people in our partner nations, especially the impoverished. This project has a total budget of \$630 million, with the government receiving \$500 million *via* the MCC, the biggest grant the nation has ever received from the US. The money will create a 400 kilometre-long 400 kV transmission line on the Lapsipedi, Galchhi, and Damauli power corridors. The funds will construct three substations along the infrastructure corridor that will link to cross-border transmission lines with India and Rupandehi. In addition, they would spend \$130 million to maintain a 300-kilometre section of the road under [9].

Setback for China

It was a significant strategic victory for China in South Asia when Nepal joined the Belt and Road Initiative (BRI) in 2017. However, as time has gone on, BRI projects have come to a standstill, and opposition to China's main initiative is growing even as support for its carefully groomed political system is eroding. For China, the ratification of the MCC by the Nepali parliament with a two-thirds majority is as much of a political loss as it is strategic [10]. It also emphasized how China is not a superpower with a magic bullet to solve the development problems of LDCs or developing nations.

China has expressed strong opposition to American participation in Nepal. Several stories in the Nepali media claim [11]. Demonstrated a lot of interest in the MCC and actively

sought to undermine it. Many Chinese officials, notably Hou Yanqi, the ambassador of China to Nepal, attended discussions concerning the MCC with all relevant parties. In reality, the Chinese misinformation effort against MCC on social media was all too clear in the months before the Nepali parliament voted on the issue. Prime Minister Deuba and Pushpa Kamal Dahal sent a letter to the MCC in September 2021 outlining the need to properly enlighten the populace and their party members about what the MCC encompassed by dispelling misconceptions and delivering correct facts. Even the CPN-UML of former Prime Minister Oli was absent from the vote to ratify the MCC, which was approved by four of Nepal's top five major parties [12]. For China, the ratification of the MCC highlighted the intense political and economic competition in Nepal and raises the possibility of parallel developments elsewhere, notably in South Asia.

Present Scenario of MCC in Nepal

The US offered Nepal \$500 million in finance through the use of the MCC for the building of transmission lines and important highways, but the governing Nepal Communist Party's top leadership objected. Opponents inside and outside the governing party say the contribution is a clear effort by the US to hide its secret geopolitical purpose in Nepal by opposing China's Belt and Road initiative. The effort was expected to be a game-changer, but it got mired in the national discussion, forcing the government to postpone its legislative choices. The MCC project has been placed on hold for the time being because of the ongoing conflict. The core problem is Nepal's worry that US funding would be used for military purposes as part of the Indo-Pacific Strategy, not the pact's asymmetric nature. People also think that on the day the MCC is adopted by the parliament, the US is mobilizing an army to attack Nepal. Various people believe the MCC agreement violates Nepal's Constitution's Article 51. The MCC agreement's Article 2.7 expressly says that it cannot use the monies for military aims [13].

Pros and Cons of MCC

- Nepal must improve its governance, transparency, and other metrics to be eligible for MCC, which would establish the framework for future development initiatives.
- It will also send a powerful message to prospective funders. In the fiscal year 2018/19, Nepal's expected foreign borrowing revenue was NPR 253.02, while foreign grant were NPR 58.81. A good signal to other donors might cause lower loan interest rates and even a larger donation. Turning down the MCC award may probably send a bad message throughout the world. They will force us to depend only on China or India as the rest of the world progress.
- MCC's road and power programmes will help approximately 34% of the population.
- We must utilise the funds for the roads and an electric grid project, unlike most foreign help, which evaporates once it hits Nepalese soil since MCC requires transparency and responsibility.

- Improving ties with the United States may enrage China, resulting in a reduction in the flow of Chinese money and products into Nepal.
- Some aspects of the MCC agreement are unclear in layperson's terms, such as whether it replaces local law.
- The nation may get immersed in debt if this big volume of money is not carefully managed.

CONCLUSION

The MCC has helped 29 countries so far, and we believe that, despite its limitations, it is a fair bargain for Nepal. The MCC covenant seeks to maximize the effect of contributed monies by requiring the government to be open, structured, and responsible. To put it another way, it's like saying, "OK, we'll give you money to help your nation flourish, but we'll make sure every cent gets to the right place, and you'll accomplish everything we promised." This is precisely what we need when we can't trust our political leaders to manage overseas help adequately and honestly.

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