

Children Life English Boarding School, Baglung



**MCC: A Stunning Political
Debate in Nepal.**

**Submitted To:
Mr. Pradip Panta**

**Name:
Sushant Shrestha
Roll No: 41
Class: XII
Subject: English**



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Chapter 1

MCC: A Stunning Political Debate in Nepal

1.1 Keywords

- Millennium – 1000 years
- Schism - Division
- Jeopardized - Risked
- Hegemony - Dominance
- Devastated – Destroyed
- Bilateral – Affecting both sides

1.2 Objectives of study:

1.2.1 GENERAL OBJECTIVE

The goal of this study is to discover the basic concept of the Millennium Challenge Corporation (MCC), as well as its benefits and drawbacks to Nepalese society.

1.2.2 MAIN OBJECTIVE

The following are some of the project's primary objectives: -

- To provide a better understanding of the MCC.
- To demonstrate the benefits and drawbacks of MCC.
- To determine whether MCC is viable for Nepal.
- To determine the amount of the grant.
- To discover why mcc is a stunning political debate in Nepal.
- To study the social acceptance of MCC in Nepalese society.
- To determine whether MCC is simply a grant or whether America has a deeper agenda.
- To acquire insight about the Indo-Pacific Strategy and its role in MCC.
- To analyze whether MCC is present in Nepal as a compact or as a threshold.

So, these are some of the general and main goals for creating this project.

1.3 Hypothesis:

The MCC is said to have the potential to transform a country like Nepal. However, the MCC was ended in several nations due to a large number of individuals going on strike against the MCC.

In the near future, the adoption of MCC may result in a number of changes in Nepal, some of which may be beneficial to Nepal while others may be detrimental. Some of the MCC hypotheses in the context of Nepal in the near future are listed below: -

- MCC will create jobs and help to alleviate poverty.
- The implementation of MCC in Nepal leads to a breakdown in ties between Nepal and China.
- If the MCC does not cross through Nepal, the problems of a poor road network and a lack of electricity will endure.
- Following the MCC, there will be significant changes in Nepal's labor problem and unstable policies.
- MCC instigates an internal conflict between Nepalese government officials, and Nepalese citizens.
- I think the MCC will encourage high-quality economic growth and generate investment possibilities.

So, these are the assumptions established before to developing this project. Let's examine if these assumptions are met when the project is completed.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

2.2 What is MCC?

The Millennium Challenge Corporation is a bilateral United States foreign aid organization formed in 2004 by the United States Congress. It is a distinct agency from the State Department and United States Agency International Development. (USAID).

The Millennium Challenge Corporation (MCC) is a form of corporation in which the United States takes on all of the issues of developing nations as a challenge over a thousand years. Every year, the United States deducts a specific amount of money from its GDP to assist the development of underdeveloped nations. The United States identified 47 poor countries, one of them was Nepal.

In 2000 AD, Secretary General of the United Nations, the idea was developed, that well-developed countries should also have to help the least developed countries for human rights, good governance, saving the country's democracy, and national development, and a decision was passed for this aim, which is now known as MCC.

The Millennium Challenge Corporation (MCC) of the United States signed a \$500 million grant deal with the Government of Nepal in September 2017. The MCC-Nepal Compact intends to improve power supply and reliability, maintain road condition, and enable regional commerce, therefore stimulating investment, accelerating economic growth, and reducing poverty.

The MCC-Nepal Compact will assist the Government of Nepal in better delivering critical services to its people, improving and strengthening the country's energy sector, facilitating the movement of goods throughout the country, and opening up new opportunities for private investment – all with the goal of creating sustainable development for the people of Nepal.

2.3 Types of Grants

There are two types of grants which MCC provides.

Compacts

Compact is an option for larger projects. In which money of up to \$10 billion USD is granted.

Threshold

Threshold programs are funding for minor initiatives. Grants of up to \$30 million USD are available under the threshold.

Nepal has received a \$500 million USD grant. That is why it is known as the MCC Nepal Compact. There are 33 nations in the Compact program, including Nepal, and 30 countries in the Threshold program.

2.4 How MCC was formed?

Following the September 11, 2001 attacks, the United States recognized that one of the primary problems of terrorism is under development in other nations. So, in order to reduce terrorism, the United States devised a plan to distribute a set amount of money to underdeveloped and developing countries as a grant. And this decision was approved by the American parliament, which is now known as the MCC. As a result of the 911 attacks in America, MCC was formed.

2.5 How long does Nepal have to complete the project?

According to the MCC compact, Nepal will need five years to finish this project. Compacts must be executed within five years of their entrance into agreement date, and no further money is given.

2.6 Why MCC is eligible for Nepal?

Certain indications must be met in order to be eligible for an MCC grant. There are a total of 20 indicators. Nepal passed 16 of the 20 indicators on the list. As a result, Nepal is eligible for MCC, and the 20 indicators are listed below: -

1. Inflation
2. Political Rights

3. Civil Liberties
4. Control of Corruption
5. Regulatory Quality
6. Rule of Law
7. Freedom of Information
8. Gender in the economy
9. Land Rights and Access
10. Health Expenditure
11. Primary Education Expenditure
12. Natural Resource Protection
13. Access to Credit
14. Business Start-up
15. Immunization Rates
16. Girls Primary Education Completion Rate
17. Child Health
18. Fiscal Policy
19. Trade Policy
20. Government Effectiveness

A diagram of indicators is illustrated below: -

Nepal FY22

Population: 29,137,000

GNI/Cap: \$1,190

Category: GNI/Cap ≤ \$1,965

Half Scorecard Passed ✓

Control of Corruption ✓

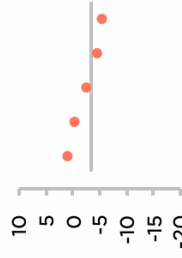
Democratic Rights ✓

Economic Freedom

Fiscal Policy

22%

Score -5.4
Median -3.3

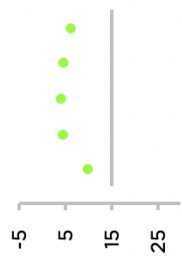


'16 '17 '18 '19 '20
IMF WEO

Inflation

6.2

Rank 42%
Max 15.0

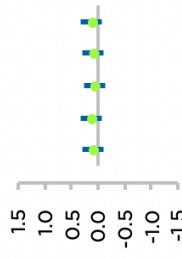


'16 '17 '18 '19 '20
IMF WEO

Regulatory Quality

63%

Score 0.11
Median 0.00

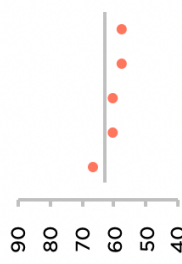


'16 '17 '18 '19 '20
World Bank/Brookings WGI

Trade Policy

26%

Score 57.6
Median 63.1



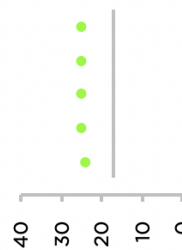
'17 '18 '19 '20 '21
Heritage Foundation

Ruling Justly

Political Rights

25

Rank 83%
Min 17

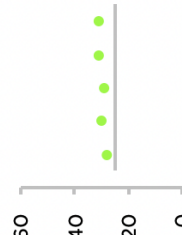


'16 '17 '18 '19 '20
Freedom House

Civil Liberties

31

Rank 77%
Min 25

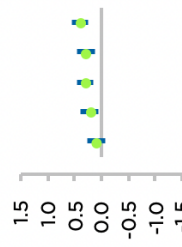


'16 '17 '18 '19 '20
Freedom House

Control of Corruption

75%

Score 0.39
Median 0.00

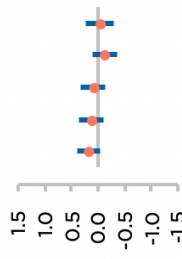


'16 '17 '18 '19 '20
World Bank/Brookings WGI

Government Effectiveness

46%

Score -0.05
Median 0.00

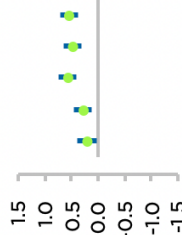


'16 '17 '18 '19 '20
World Bank/Brookings WGI

Rule of Law

81%

Score 0.53
Median 0.00

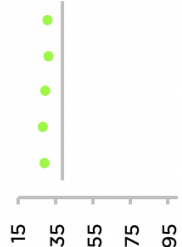


'16 '17 '18 '19 '20
World Bank/Brookings WGI

Freedom of Information

75%

Score 30.6
Median 38.5



'17 '18 '19 '20 '21
RSF/Access Now/CLD

Investing in People			
Gender in the Economy 77% Score 80.6 Median 73.9 World Bank/WORLD Policy Analysis Center	Land Rights and Access 60% Score 0.63 Median 0.61 Varieties of Democracy Institute/IFAD	Health Expenditures 57% Score 1.46 Median 1.14 WHO	Primary Education Expenditures 62% Score 1.75 Median 1.58 UNESCO
Access to Credit 89% Score 0.34 Median 0.16 IMF/Findex	Business Start-Up ^ 74% Score 0.953 Median 0.927 World Bank Enterprise Surveys	Immunization Rates 55% Score 85.5 Median 81.8 WHO/UNICEF	Girls' Pri Edu Completion Rate 100% Score 123.2 Median 69.9 UNESCO
		Natural Resource Protection 54% Score 77.4 Median 68.9 CIESIN/YCELP	Child Health 90% Score 86.4 Median 58.8 CIESIN/YCELP

So, these are the MCC indicators: green indicates that Nepal passed the requirements, while red indicates that Nepal failed the requirements.

If there are any ups and downs or significant changes in the indicators reported by the MCC, America has the option to stop all projects in Nepal and return all remaining funds back to the America. MCC has already been canceled in countries such as Ghana, Madagascar, and Tanzania.

2.7 What are the obstacles for economic development of Nepal?

A Growth Diagnostics Study was conducted in order to identify the barriers to Nepal's economic development. Four things were discovered as a result of this, and they were as follows:

1. Inadequate Supply of Electricity
2. High Cost of Transportation
3. Policy Implementation uncertainty
4. Outdated Labor

For the time being, MCC's top priorities are Electricity and Road Network. The money supplied by MCC may only be invested in priority sectors; it cannot be invested in any other area.

2.8 How much is being invested in Nepal?

United States provided \$500 million USD to this project, while Nepal contributed \$130 million USD to demonstrate Nepal's ownership.

Therefore, a total of \$630 million USD is being invested in Nepal. This is the largest grant ever given to Nepal.

2.9 What is Indo-Pacific Strategy (IPS)?

Trump's use of the term "Indo-Pacific" implies that India, the United States, and other key Asian countries, including Japan and Australia, will participate in controlling China in the new framework of expanding "Cold War" hegemony.

2.10 Is MCC part of the Indo-Pacific Strategy?

When America is asked, "Is MCC part of the Indo-Pacific strategy?" Initially, America stated that it is part of the Indo-Pacific Strategy, but subsequently, in response to the controversy, America stated that MCC is not part of the Indo-Pacific Strategy. It is not stated in the MCC agreement that it is part of the Indo-Pacific strategy.

2.11 Why MCC is a stunning political debate in Nepal?

There was a schism within the Nepal Communist Party because they believe that the MCC is part of the Indo-Pacific Strategy and includes military components from the United States, and that in the event of a conflict, the MCC compact will take precedence over Nepal's constitution; as a result, this debate was made public and known to all Nepalese citizens.

When David J. Ranz (a career member of the US Senior Foreign Service) visited Nepal in May 2019 and stated that MCC was a crucial part of the Indo-Pacific strategy and involves military components, the controversy heated up even more. If the military of a larger country become involved in a tiny country like Nepal, everyone will be upset. However, the Indo-Pacific strategy is not included in the MCC compact.

Bhim Rawal of the CPN-UML is a significant leader who has spoken out against the compact's adoption. He claims that if the compact is not changed, Nepal will be in danger. He claims that the MCC is above Nepali law and the constitution, and that the government should provide all agreement documents to the House. He claims that just a portion of the deal has been shown to the House and that the rest is being kept hidden by the administration.

MCC is becoming a stunning political debate in Nepal. This is due to the fact that MCC was recently passed in Nepal, and everyone in the country is debating the topic of MCC, even Nepalese students are preparing a thesis on the subject. That is why the MCC context is still becoming highly common.

2.12 To whom should electricity be sold?

Electricity is Nepal's top priority sector. According to the Nepal Electricity Authority, Nepal's domestic electricity requirements are nearly met, and we are in a position to export electricity. To export this electricity, we must find a customer, as China does not want any electricity, but this electricity is required by India and its subcontinents. So, there is high chances of exporting of electricity to India. As a result, there is a good potential of exporting electricity to India.

2.13 Is MCC advantageous to Nepal?

MCC is immensely beneficial to Nepal from an economic standpoint; however, MCC offers more than just economic benefits; it also offers diplomatic opportunities and international relationships. The political connection between America and Nepal will be strong, but the political relationship between China and Nepal will degrade gradually.

MCC created many sorts of compacts in various nations based on the needs of the country. In Nepal also MCC discovered the nation's demand for electricity, transportation, and roads and to develop them a specific amount of money granted by the MCC as a grant which is beneficial to Nepal.

However, some adjustments to the MCC Compact may be required in order for MCC to be beneficial to Nepal. These alterations are as follows:

1. Now, if a dispute arises between the Nepal Constitution and the MCC Compact, it is claimed that the MCC Compact will be superior to the Nepal Constitution. If this is a deal, and in the event of a dispute, the Nepal Constitution remains superior to the MCC compact, then the MCC will undoubtedly benefit us.
2. All of the nations where the US Army invaded those countries were devastated, thus for the sake of Nepal, the US Army should be blocked from entering the country, because if the US Army enters the country, there is no possibility of the US Army returning.

2.14 Is it possible for our political leaders to corrupt \$500 million USD?

First of all, Certain works are required to be completed by Nepal under the MCC agreement over a five-year period. This will be audited by both the American and Nepalese governments to see whether or not the work was completed on schedule and how much money was spent on the project. As a result, there is no prospect of corruption by political leaders or anybody else.

2.15 What if we don't like MCC's work?

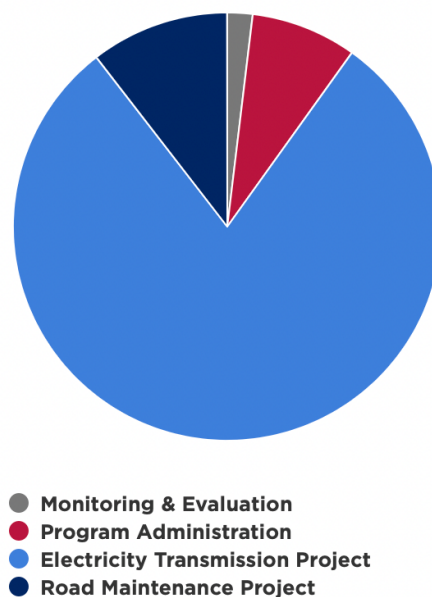
It is specified in the agreement that it shall be completed within five years. If the work does not begin and end on schedule, and if we feel America's supremacy, Nepal may easily cancel the MCC Compact at any moment.

So, if we don't enjoy MCC work, we may stop doing it at any moment.

2.16 Compact Budget

2.16.1 Diagram:

Compact Budget



This figure shows that a total of \$500 million USD is available, of which 1.9 % is for Monitoring and Evaluation, 8% is for Program Administration, 79.64% is for Electricity Transmission Project, and 10.46 % is for Road Maintenance Project.

2.17 Compact Projects

2.17.1 Electricity Transmission Project

The Energy Transmission Project's goal is to boost home electricity consumption by enhancing electrical availability and reliability in Nepal's electricity grid. The project will specifically enhance and reinforce the high voltage electricity transmission network to allow new generating investments that would unlock Nepal's hydropower potential and permit higher power commerce between India and Nepal. This will be accomplished through the project in the following ways:

- To promote electrical commerce, roughly 300 kilometers of high voltage power lines, comparable to one-third the length of Nepal, will be built, including a link to the Indian border.
- Three substations are being built to help transfer power from one voltage level to another for further transmission or distribution to consumers.
- Technical support in areas such as tariff setting, rule-making, dispute resolution, and economic and technical regulation to help bring transparency, efficiency, inclusive consultation, and competition to the electricity industry. It would also assist Nepal Electricity Authority in improving transmission operations.
- The project will also feature a benefit sharing program to improve access, dependability, and productive use of power in communities affected by the project.

2.17.2 Road Maintenance Project

Traveling and transporting products in Nepal is difficult and expensive due to poor road maintenance. In a landlocked and hilly country that relies on cross-border commerce, the high expense of transportation has severe economic consequences. To address the high cost of transportation, the Road Maintenance Project seeks to maintain road quality across Nepal's vital road network, therefore preventing future damage of the country's road network. This will be accomplished through the project in the following ways:

- In addition to the periodic repair of up to 305 kilometers of the country's key road network, a reward fund will be established to stimulate the increase of Nepal's road maintenance budget. This program will also bring new asphalt recycling technologies to Nepal via a small pilot project to test and assess its potential for wider application.

- Training and capacity building for the Department of Roads and Roads Authority Nepal to enhance road maintenance management.

As a result, these are the projects that the MCC agreement guaranteed. This project has both positive and negative impacts, which are listed below:

2.18 Positive Impacts

The following are some of the positive consequences of MCC and its projects:

- MCC grant is a significant economic assistance that can help to accelerate growth of Nepal.
- It will hasten the development of Nepal's road quality.
- It contributes to the growth of tourism in Nepal.
- It expands job opportunities in Nepal.
- It expands employment possibilities and enhances Nepal's education system.
- Maintains road condition with the use of various modern technologies.

2.19 Negative Impact

The following are some of the negative consequences of MCC and its projects:

- Electricity transmission project and road maintenance project result in deforestation, which harms the environment.
- This project will require the taking of people's and farmer's land. People are dissatisfied as a result of this.
- People's health and safety are being jeopardized in order to finish this project.
- MCC Agreement is just for five years, and the development covers only a small region in those five years.

2.20 Has any country said no to MCC?

Yes. The Sri Lankan government has chosen not to sign the \$480 million Millennium Challenge Corporation (MCC) deal with the United States, stating the conclusions of a committee that determined some of its provisions threaten the island nation's national security and welfare.

Chapter 3: METHODOLOGY

3.1 Study Area Description

This project is made possible through interviews conducted in Nepal's Baglung area, and it covers the entire country, informing people about MCC and the current situation of MCC in Nepal.

3.2 Secondary Data Collection

3.2.1 Websites and Books

Different sorts of MCC websites provided statistical data such as budgets, different types of indicators, their rank, and so on. For the literature review, many books and magazines about MCC were also used.

3.3 Primary Data Collection

3.3.1 Expert Suggestions and Interview

Expert and research suggestion and discussions were helpful for this research study. On this time of my research study, I met few politicians and expert during research on MCC and discussed with them. I conducted two interviews with separate people.

- Suggestions of Mr. Jagadeesh Upadhaya, a politician who helped in data collection and project creation by conducting interview.
- An interview with Mr. Arjun Ghimire, a doctor who assisted me in completing this project.

As a result, many sorts of websites, interviews, and books were used to collect data, and because of those data that this project is possible.

Chapter 4: RECOMMENDATIONS

4.1 My Opinion

The MCC compact is beneficial to Nepal and should not be abandoned; however, it's difficulties are more serious. With this project, ordinary people will confront numerous challenges. My recommendations for resolving those issues are as follows:

- People's land should not be used, and if it is, they must provide better land elsewhere.
- Development is vital, but sustainable development is even more so, deforestation should be avoided when working on this project.
- The project should be checked on a frequent basis to determine if it is going successfully and to avoid corruption.
- Nepal must consult with India to determine whether or not it needs electricity, as well as the amount of electricity required.
- In the event of a dispute, the MCC Compact is claimed to be more powerful than Nepal's Constitution. In such situation, the Nepal Constitution should stay at the top.
- U.S. troops should be restricted from visiting our country.
- People's health and safety should be considered when developing the country.
- The MCC agreement states that all intellectual property created under the MCC compact may be used by the United States without payment of royalties in the future. In my opinion, if the United States wishes to use such intellectual properties in the near future, they must pay taxes and royalties.
- It is said that anything brought into Nepal under the MCC compact is non - taxable, however in my opinion, they must pay taxes.

Finally, many nations have enjoyed the benefits of MCC; now it is time for Nepal to reap the benefits of MCC, and it is not all that awful for Nepal.

Chapter 5:

5.1 CONCLUSION

Pampha Bhusal, Minister for Energy, Water Resources, and Irrigation, stated that Nepal and the United States have good mutual connections and that they would achieve an agreement on MCC based on political unity and people's desires. Minister Bhusal stated that Nepal has progressed its development process with the assistance of bilateral and multilateral donor organizations. She expressed optimism that Nepal will get greater assistance from the United States in the coming days.

As a conclusion, some of the points are as follows:

- The study's findings somewhat support the hypothesis. The MCC does not deal with the issue of labor or unstable policies, but it does address the issue of electricity and transportation.
- The MCC is both beneficial for Nepal and harmful for Nepal in several ways. MCC is excellent because it improves Nepal via electricity and transportation, but it is negative because it is superior than Nepal's constitution and includes military components.

The MCC Nepal Compact has caused a division in Nepal's political landscape. Those who reject the MCC Nepal Compact consider it as part of the United States' "grand scheme" to pull Nepal to its side and defeat the Chinese BRI. This might have major consequences for Nepal's relations with China. Although Beijing has stated that it is not opposed to Nepal receiving assistance from anybody, the Chinese are keeping a close eye on Nepal's political events.

In response to Nepal's inquiries, the MCC has attempted to clear up some of the policy confusion. However, whether the responses and talks were able to convince Nepal's political leadership or not is dependent on their choice to join the MCC Nepal Compact. Therefore, you may determine if MCC is a good move for Nepal or the worst decision ever. It is entirely dependent on you.

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