

Nepal's Fight for Sovereignty, the Millennium Challenge Corporation, and the US' New Cold War Against China

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On 27 February 2022, the Millennium Challenge Corporation (MCC) Compact was ratified by the Nepal Parliament following a motion proposed by the Prime Minister of the coalition government, Sher Bahadur Deuba, leader of Nepali Congress Party and a staunch supporter of the MCC. The MCC was created by the United States government in 2004 as a development agency. However, US national security strategy papers suggest its primary aim is to further the US national security agenda.

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The Drama and the Fig Leaf

On 27 February 2022, the Millennium Challenge Corporation (MCC) Compact was ratified by the Nepal Parliament following a motion proposed by the Prime Minister of the coalition government, **Sher Bahadur Deuba**, leader of Nepali Congress Party and a staunch supporter of the MCC. The motion was supported by two major communist parties in the ruling coalition: the Communist Party of Nepal – Maoist Centre (CPN-MC) and the Communist Party of Nepal – United Socialist (CPN-US), who, until then, appeared to be fiercely opposed to the MCC Compact both in the parliament and in the streets. The Communist Party of Nepal – Unified Marxist Leninist (CPN-UML), the leading opposition party at the time, had also previously pushed for ratification when it led the government as a single communist party.

The MCC was created by the United States government in 2004 as a development agency. However, US national security strategy papers suggest its primary aim is to further the US national security agenda. The government of Nepal signed the MCC Compact in September 2017 during Deuba's previous tenure as prime minister from 2017 to 2018; however, that Compact did not have the force of law. Most Nepali political parties, mainly the left, rejected the MCC Compact from the beginning, calling it a violation of the country's sovereignty. In a dramatic turn of events, CPN-MC and CPN-US pressured their parliamentarians to vote in favour of the MCC Compact after an agreement to endorse the Twelve Point Interpretative Declaration (12ID).

The 12ID, tabled by the Nepal government concurrently with the MCC Nepal Compact, asserted that the Compact would immediately be null and void if it did not abide by the stipulated terms. This one-sided declaration, as it turned out, was nothing more than a fig

leaf attempting to provide cover for parliamentarians who had previously opposed the deal, as they voted for the Compact against the wishes of their constituents. This was particularly true for the two communist parties, as they volte-faced at the most decisive moment while others were protesting in the streets. Even after two years of ratification, there is no evidence that the Nepal government has received an official letter from the MCC endorsing the 12ID. MCC CEO Alice Albright only verbally acknowledged it in response to a journalist's question in October 2023.

At stake was a \$500 million grant that the MCC Compact provided for Nepal to enhance its energy infrastructure on the condition that Nepal invests an additional \$130 million in the project. The funds are intended to be used to build a 315 kilometre long 400 kilovolt (kV) transmission line and maintain the road that would run beside it.[1]

The proposed electricity line would connect Nepal's electricity grid to India's electricity grid, thus enabling Nepal to sell the surplus electricity it generates over the next five years. In May 2023, Nepal contributed an additional \$67 million to the project, bringing its total contribution to \$197 million - 39% of the project's total costs.[2]

This is the largest financial contribution made by any of the fifty-one MCC recipient countries in the programme's history.



Burning tyres in the street by Nepalese youths protesting against MCC. Source: Amit Machamasi

The MCC's Origins and Its Impact on US National Security Strategy

Shortly after the US began its Global War on Terror (2001) and the war of aggression on Iraq (2003), the US Congress passed the Millennium Challenge Act in January 2004, establishing

the MCC project. As former Nepali minister **Dipak Gyawali** observed, the MCC and other related US government institutions ‘accelerated the process of weaponizing foreign aid in particular and foreign assistance by [the] US and its allies in general’.[3]

Even before the US Congress passed the Millennium Challenge Act, this strategy had been made clear in US President George W. Bush’s introduction to the National Security Strategy (2002):

The events of September 11, 2001 taught us that weak states, like Afghanistan, can pose a great danger to our national interest as strong states. Poverty does not make poor people into terrorists and murderers. Yet poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders. ... Free trade and free markets have proven their ability to lift whole societies out of poverty... The United States will deliver greater development assistance through the New Millennium Challenge Account to nations that govern justly, invest in their people, and encourage economic freedom.[4]

While the US was focused on Afghanistan during this period, its orientation to ‘reduce’ poverty in low-income countries in order to prevent the growth of terrorist networks and drug cartels extended across the world. The MCC was conceived as part of the US’s national security strategy both to tackle poverty and to yoke in the political elites in small, low-income countries. Similar to other U.S. government programmes like the National Endowment for Democracy, the Compact was to be carried through the disbursement of funds, which it used as an instrument to enforce the ideas of free markets and representative democracy. Along these lines, the US Congress established the MCC as an independent government entity, which is nonetheless intimately linked to the US Departments of State and the Treasury as well as the US Agency for International Development (USAID). The MCC board of directors is chaired by the US secretary of state, and its vice chair is the secretary of the treasury. The rest of the board is composed of US government officials, including a representative of USAID and the CEO of the MCC, along with four individuals from the private sector appointed by the President of the United States and drawn from a list submitted by the US Senate.

Eight months after the MCC was ratified by the Nepali Parliament, the US released its 2022 National Security Strategy. The document highlights the centrality of the Indo-Pacific region, affirming that ‘No region will be of more significance to the world and to everyday Americans than the Indo-Pacific’.[5]

Not long after, the North Atlantic Treaty Organisation (NATO) released a report on the Indo-Pacific region that reiterates the importance of the Indo-Pacific and echoes US concerns about the rise of China as the West’s primary concern. It states: ‘The challenges posed by China to Euro-Atlantic security will remain a matter of attention for allies and partners going forward’.[6]



The police force deployed in front of the Parliament House in order to contain the protest against MCC.
Source: Amit Machamasi

How the MCC Impacts Nepal's Neighbours

In December 2011, the MCC selected Nepal for a smaller grant under its 'threshold programme', which would be upgraded to a five year Compact in 2014. The grants were primarily meant to address the country's inadequate electricity supply, particularly during the winter, when hydroelectric power generation decreases.[7]

There is no denying the severity of the electricity shortage facing the country, nor its impact on the population. In 2022-23, Nepal's per capita electricity consumption was 380 kilowatt hours (kWh) – fourteen times lower than the consumption in nearby Bhutan (5,514 kWh). However, while the proponents of the MCC Nepal Compact claim that the new electricity corridor would benefit twenty-three million people (three-quarters of Nepal's population), this aspiration does not account for the fact that most of the additional electricity generated is intended to be sold to India.[8]

This is evidenced, for instance, by the agreement signed by the Power Grid Corporation of India and the Nepal Electricity Corporation in September 2023 for a 130-km-long 400-kV transmission line extending from the Birgunj district of Nepal to the Gorakhpur District of India. Within months, on 4 January 2024, India's **External Affairs Minister S. Jaishankar** and Nepal's **Foreign Minister N. P. Saud** signed an agreement under which Nepal will provide India with 10,000 megawatts of power over the next ten years. This agreement will remain in force for 25 years and will be extended for every ten years unless terminated by either party with a six months' notice.[9]

The rationale given for the MCC grant – to increase the production of electricity for domestic consumption – did little to hide the MCC’s ulterior motives to draw Nepal into furthering the US strategy in the region and deepen Nepal’s dependence on India. It is worth noting, towards this end, that the Compact was not drafted by Nepal alone; as the MCC notes, it was developed with USAID, the US Department of State, and the government of India, as well as ‘a variety of development partners’.[10]

India’s foreign policy has partly been to use the US presence in the region as a balance against the influence of China, with whom it nonetheless seeks to maintain its ties.[11]

In 2007, the United States brought Australia, Japan, and India into the Quadrilateral Security Dialogue (the Quad), although it did not become active at the time due to the presence of the social democratic government that was in power in India. With a change in the political situation in India, the Quad was revived around the time that National Security Strategy (2017) brought India into the US military’s focus on East Asia and the name of the military theatre changed from ‘Asia-Pacific’ to ‘Indo-Pacific’. The following year, the US renamed its regional military structure from the Pacific Command (as it had been known since 1947) to the Indo-Pacific Command.

Though India is part of the US’s Indo-Pacific Strategy, it is wary of the growing US presence on Nepali soil and the increased diplomatic relations between the two countries, which circumvent India’s role as a mediator. Nonetheless, India has supported the MCC Compact – and was even involved in its drafting – because it stands to benefit from the cheap electricity sales from Nepal that the Compact would likely generate. For this reason, India has largely been willing to overlook its concerns about the political consequences of the Compact, such as its diminishing influence as an arbiter of US-Nepal relations.[12]

China’s response to the MCC, amidst US pressure, is also noteworthy. Over the past decade, the US government has used the MCC Compact to contest and undermine China’s Belt and Road Initiative.

However, China has refrained from succumbing to US provocations. In 2020, China’s ambassador to Nepal, Hou Yanqi, stated,

‘We welcome any international assistance to Nepal if it is for economic cooperation. We would like to see the ratification process of the MCC, and the Nepal government take a positive decision for its interest’.[13]

Nevertheless, over the two years since Hou Yanqi’s comments, the US has escalated tensions in the region by exerting undue pressure on Nepal to ratify the MCC in parliament and support its agenda towards China. For instance, US officials visited Tibetan refugees in Nepal without obtaining approval from the Ministry of Foreign Affairs. On another occasion, US officials blamed China for the delay in ratifying the MCC, prompting China to describe US relations with Nepal as ‘coercive diplomacy.’[14]

As **Hua Chunying**, the spokesperson for Chinese foreign ministry, said in February 2022:

The US Embassy in Nepal described the USD 500 million MCC grant as ‘gift from the American people to Nepalis’. I wonder, since when does a gift come with the package of an ultimatum? How can anyone accept such a ‘gift’? Is it a ‘gift’ or Pandora’s box? I’m afraid it will turn out like a Nepalese saying: It looks good, but you will find the

meat difficult to chew ... [T]here should be no interference in any country's domestic affairs, no political strings attached, no coercive diplomacy, and certainly no infringement on other countries' sovereignty and interests for selfish gains.[15]



The combined demonstration against the MCC at Kathmandu Street by left-wing parties and their several fronts /

Youths in Kathmandu Street, together with back off MCC play cards and demonstration by thumping an ethnic traditional drum. Source: Amit Machamasi

The Debate in Nepal

The MCC Compact has sparked heated debate within Nepal since its proposal in 2017, which has only intensified following its ratification in parliament.

Proponents argue that the Compact would benefit Nepal in at least four ways:

1. The sale of excess electricity to India, estimated to generate \$1 billion annually, would provide the government with lucrative foreign exchange earnings.
2. The involvement of US energy experts would provide employment opportunities and the transfer of skills for Nepalis.
3. The Compact would strengthen relations between Nepal and the United States.
4. The Compact would provide Nepal a mechanism to balance its position between its two large neighbours, India and China.

Opponents of the MCC point to at least three contentious clauses in the Compact and the

perils of its ratification in parliament:

1. The Compact infringes upon Nepal's sovereignty, since the parliament granted it the legal status of an international agreement with the power to override Nepal's domestic laws if these conflict with the project's requirements, as well as to bypass state institutions such as the Nepal Electricity Authority (NEA).
2. The construction of the electricity line and road project under the MCC Compact will be detrimental to Nepal's economy in at least four ways:
 - A. The estimated cost of building the 400-kV transmission line, according to the Ministry of Corporate Affairs, is four times higher than the budget proposed by the NEA (\$38,000 to \$150,000). This means that if Nepal had constructed the transmission line through the NEA, there would have been no need for MCC funds.[16]
 - B. The MCC project side-lined an NEA plan that would have upgraded an existing 132-kV grid to a 400-kV grid along Nepal's lowlands.[17]
 - C. The inflated budget for the MCC project has led to an inflated contractor's bid for the line, even exceeding the MCC's budget. This precedent of the inflated MCC cost and bidding process is likely to create inflation in future infrastructure projects, a realisation that recently led the government to cancel the contract procedure and call for a new bid application.
 - D. USAID study revealed that using electricity in Nepal would generate a value equivalent to 86 cents through its use in domestic industries. However, Nepal sells electricity to India at around 6 cents per unit, which means that it incurs a loss of 80 cents per unit through these sales.[18]
3. Through the MCC Compact, the US has drawn Nepal into the controversy of its involvement in the US-run Indo-Pacific Strategy in its attempts to contain China and Russia.

Nepal is a landlocked country that borders China and India. It has sought to maintain good relations with all nations, particularly its neighbours, while defending its sovereignty and avoiding being used as a tool to further foreign interests. However, the MCC has drawn Nepal into the US's New Cold War against China.[19]

Despite the US embassy in Kathmandu and the MCC team claiming that the MCC is not part of the US's Indo-Pacific Strategy, US officials' statements suggest otherwise. For instance, in 2017, US Assistant Deputy Secretary of State Alice Wells told the US Congress that Nepal 'has been selected for one of the United States' most high-profile projects to increase regional connectivity within the Indo-Pacific'.[20]

This position was reinforced by US Acting Deputy Assistant Secretary of State for South Asia, David J. Ranz, when he openly said that the MCC is an integral part of the Indo-Pacific Strategy during his visit to Nepal in May 2019. Furthermore, the US State Department report titled A Free and Open Indo-Pacific (November 2019) stated the MCC is an 'economic pillar' of the Indo-Pacific Strategy.[21]

The US's intentions to drag Nepal in its plans for the Indo-Pacific region is not only clear through statements, but also through its actions, such as the controversy that broke out about Nepal's role in the US State Department's State Partnership Programme (SPP), a military-to-military cooperation programme, immediately after the parliament ratified the

MCC. Nepal temporarily joined the SPP as a part of a disaster management partnership in the aftermath of an earthquake in 2015 that killed nearly 9,000 people, injured more than 22,000, and affected over a quarter of the country's population.[22]

However, four years later, in June 2019, the US Defence Department's Indo-Pacific Report listed Nepal as a full member of the SPP.[23]

It is worth noting that many European countries that joined the SPP in this manner later went on to become members of NATO. In 2022, when there was talk about an Asian NATO, Nepal appeared to be prepared to join the SPP, sparking nationwide protests against the SPP. As a result, the government retreated from its decision to join this programme.[24]

The contradictory claims and actions of the US government and MCC officials have provided no assurance to the Nepali public. Even the right-wing Rastriya Prajatantra Party, which is close to the deposed monarchy, stood against the MCC Compact. Protests across the political spectrum pushed Nepal's government to write to the MCC in September 2021 and ask for clarification on some of these issues. The letter, written by Finance Minister Janardhan Sharma and sent before Parliamentary ratification, posed seventeen questions about several clauses in the MCC Compact, such as section 7.1, which states that 'The parties understand that this Compact, upon entry into force, will prevail over the domestic laws of Nepal'.[25]

The MCC's response dodged the question. Instead, they stated that 'the Ministry of Law, Justice, and Parliamentary Affairs (MoLJPA) reviewed all terms of the MCC Nepal Compact, including the section 7.1, and concluded that Compact provisions do not conflict with the laws of Nepal'.[26]

However, this raises a point: If there's truly no conflict, then why is there a clause stating that the 'compact ... will prevail over the domestic laws of Nepal'?

Question 10 of the clarification letter asked why the Compact needed parliamentary ratification, which would raise the Compact to the status of international law:

Many agreements related to development, construction and investment do not seem to require parliamentary ratification. Why does this particular agreement need parliamentary ratification? After parliamentary ratification, an agreement becomes a law. All the conditions mentioned in it become the law. As long as that law exists, the MCC has a statutory right to maintain control in influencing treaties, agreements, economic investments, development models, and state affairs of Nepal. Is it not for the purpose of maintaining that control, as per Article 5.5 of the agreement, the parliamentary ratification has been proposed?[27]

The MCC's response contradicts their earlier claim in Section 7.1 that the 'compact provisions do not conflict with the laws of Nepal.' The MCC shifted the blame to MoLJPA for seeking parliamentary ratification. This necessitates MoLJPA's conclusion that parliamentary ratification is required to override domestic laws:

During compact development, [the] MCC asks each partner government what their country's domestic law requires in order for the compact to have the status of an international agreement and that will avoid any specific conflicts with domestic law. For Nepal, the government, through Nepal's Ministry of Law,

Justice, and Parliamentary Affairs, concluded that, under Nepali law, parliamentary ratification is required for the compact to be such an international agreement.[28]

One of the questions in the letter is especially germane:

From 2001 onward, the USA replaced its previous USAID strategy by adopting the strategy of mobilising the aid only under US national security strategy. The National Security Strategy of December 2017, National Security Strategy Report of June 2019, and Indo-Pacific report of November 2019 state that military and non-military alliances in the Indo-Pacific region would be strengthened and assistance including MCC would be mobilised under Indo-Pacific Strategy. Can't it be said that the agreement is under the Indo-Pacific Strategy?[29]

The United States' response was evasive. It avoided directly rejecting the question or denying its implications. Instead, it simply stated that the 'MCC-Nepal Compact is a non-military agreement... [it] is not, and never has been, a deliverable of the Indo-Pacific Strategy'.[30]

This answer failed to address the concerns of the Nepali people. Protests continued, compelling the government to issue the twelve-point interpretative declaration, which begins by stating:

Nepal declares that being a party to the compact, Nepal shall not be a part of any United States' strategy, military, or security alliance including the Indo-Pacific Strategy.[31]

Yet, as we explained earlier, this fig leaf holds no weight, nor does it have a legal standing or any way of being enforced.

On the day that the MCC Compact entered into force (EIF) in August 2023, The then opposition leader and current Prime Minister K. P. Oli, who had previously pushed the bill through parliament, said that the interpretative declaration was a 'lie' and that 'the MCC does not accept this' declaration. The MCC Compact, he said, 'will be implemented as it has been approved by parliament', with no amendments.[32]

Six weeks later, MCC Chief Executive Officer Alice Albright visited Nepal, she stated, 'We have accepted [the declaration]'. However, the Nepali government has yet to make public a formal written response from the United States government that accepts this declaration, if one exists.[33]

Though the US Embassy acknowledged in an interview with *The Kathmandu Post* that: 'We agree with the interpretative declaration and consider it to be consistent with our understanding of the terms of the compact, including the prevalence of the Constitution of Nepal over the MCC Nepal Compact', this admission cannot supplant an official communiqué to the government and lacks a clear legal standing.[34]

It is important to remember that Nepal's parliament passed the 12ID and deserves an official response, not just a verbal comment.

While Nepal claims that the compact would be immediately declared null and void if it violates the declaration, for this to be the case, the US government would have to issue legally binding documentation stating as much. If the MCC has no objection to the declaration, then why has there been no such official communiqué, and if there is, why has the Compact not been revised accordingly? As it stands, two contradictory stances define US-Nepal policy, one that suggests that the MCC Compact can override Nepali law and the other that says that this is not so.

Following the MCC's response to Finance Minister Sharma's questions, several high-ranking officials from the United States visited Nepal. In September 2021, MCC Vice President Fatema Sumar came to Nepal and met with most of the high-level Nepali political leaders and government officials. This was followed by a visit from US Assistant Secretary of State for South and Central Asia Donald Lu. During his visit, Lu met with the then Prime Minister Sher Bahadur Deuba, CPN-UML chair KP Oli and CPN (MC) chair Pushpa Kamal Dahal and issued an ultimatum: if Nepal did not ratify the compact, Lu would return to Washington and recommend a review of US relations with Nepal.[35]

This marked a significant shift in tone, as such a forceful language had not been used in the seventy-six years of US-Nepal relations.

As part of the broader pressure campaign against Nepal, Lu hinted that if the country refused to ratify the MCC Compact, the US would blame this on China, drawing Nepal firmly into the US-imposed New Cold War on China. There should be no confusion: US foreign policy defines the MCC as a developmental arm of its national security strategy. Not only is the MCC economically unviable, but it also drags Nepal into the dangerous waters of the New Cold War imposed by the US on Asia.

It is worth pointing out that Sri Lanka, the only other South Asian country to be offered an MCC grant, refused to sign an MCC Compact in 2020 based on a report of the Sri Lankan Expert's Committee on the matter. The report, which stated that 'the current status of countries which had implemented MCC is tragic', also noted that if the Sri Lankan Parliament adopted the compact, it would not be able to revise it during the course of the project.[36]

In Nepal, which voiced the same concern about the binding nature of the compact, a committee chaired by former Prime Minister Jhala Nath Khanal of the CPN-US presented a detailed analytical report that suggested that the compact be amended. However, MCC officials initially downplayed these concerns, but later contradicted themselves by denying that there had been any such suggestion for emendation.[37]



An injured young demonstrator from the student front being rescued for treatment by the Red Cross rescue crew. Source: Amit Machamasi

Conclusion

It took a decade for the MCC Compact to be ratified in the parliament and another year and a half for it to enter into force. The countdown has now begun to finish the construction by 2027. If this is not achieved within the project period, the MCC can withdraw, shifting the financial burden to finish the project onto the recipient country. Furthermore, under section 5.3 of the Compact, 'MCC has right to receive refund and even interest could be levied if the refund is delayed for violation of any covenant'. The project is already facing problems, making it unlikely to be completed on time.

There is a clear paper trail documenting the MCC's role in the United States' national security strategy. What is not clear, however, is why Nepal applied for the MCC Compact grant and why it participated in writing a Compact that is against its own interests, at minimum by:

1. undermining the country's parliament and compromising its sovereignty.
2. trapping the country in an expensive transmission line project that - if not completed on time - will have to be paid for by Nepal and will further indebt the country. The cancellation of the previous procurement bid has already caused a significant one-year delay in opening another bid, making it nearly impossible to complete the project within five years.
3. drawing Nepal into a project that is tied up in the United States' geopolitical plans for Asia, setting a precedent that will continue even if the MCC grant is withdrawn.

Why did the United States, a country with the largest military in the world, pressure a poor country to accept a 'free' grant that has provoked immense backlash from its population? Why did the United States refuse to amend the compact and threaten to cut its bilateral ties if the grant was not ratified by parliament? Why did the United States drag China into this controversy by claiming that the Chinese government was holding up the ratification of the MCC, when it is clear that the 'hold up' was the resistance of the Nepali people?

The rationale for the MCC grant is that Nepal needs to enhance its electricity infrastructure and export electricity to earn precious foreign exchange. But the grant comes at a high economic and political cost, and its proponents ignore a key factor: that such a project could have been built by the Nepali state at a much lower cost, with the money it is contributing to the MCC project (\$197 million) and without the geopolitical entanglements of the MCC. The protest against MCC continues, and as the MCC project advances, its inherent contradiction will also surface. To preserve its sovereignty and avoid compromising it further, Nepal should prioritise building the necessary transmission line itself, even if it requires funding entirely from its own coffers. As per Section 5.1 Nepal has the right to call off the agreement with a 30 days' notice.



Youth chanting "Back Off" and "No MCC" in front of Parliament Source: Amit Machamasi

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This essay was produced in collaboration with Bampanth and written by its chief editor, Dr Mahesh Maskey. He was formerly the chair of the Government of Nepal's Health Research Council and Ministry of Health and Population's High-Level Health Policy Advisory Committee. Dr Maskey also served as Nepal's ambassador to China from 2012 to 2016.

The photographs in this essay are by Nepali photojournalist and visual artist Amit Machamasi, documenting a protest in February 2022 against the Millenium Challenge Corporation in New Baneshwor, Kathmandu. The photographs were modified by the art department of Tricontinental: Institute for Social Research into collages that highlight the crisis of energy supply for the Nepali people.

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Appendix

The Twelve-Point Interpretative Declaration (February 2022)

1. Nepal declares that being a party to the Compact, Nepal shall not be a part of any United States' 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. With reference to **Section 2.7**, **Section 5.1 (b) (iii)**, **Section 5.1 (b) (iv)** of

the Compact, Nepal understands that these sections are intended to apply only for the use of the MCC Funding and Programme Assets and that the provisions do not and shall not obligate Nepal to comply with the current or future United States' laws or policies for any purpose other than the use of the MCC Funding.

4. With reference to **Section 3.2 (b)** of the Compact, Nepal declares that the conduct of activities of the 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. With reference to **Section 3.2 (f)** of the Compact, Nepal declares that [the] 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 programme.
6. With reference to **Section 3.5** of the Compact, Nepal declares that Implementation Letters under the Compact shall be implemented within the scope of the Compact.
7. With reference to **Section 3.8 (a)** of the Compact, Nepal declares that, in addition, the audits of all the activities and funds of MCA-Nepal [the Ministry of Corporate Affairs] shall be conducted by [the] Office of the Auditor General in accordance with [the] prevailing laws of Nepal.
8. With reference to **Section 5.1 (a)** of the Compact, Nepal declares that in addition to Nepal's right to terminate the Compact without cause by giving thirty (30) days' prior notice, Nepal has the right to terminate the Compact by giving thirty (30) days' prior notice in case the activities/programme under the Compact violate Nepal's laws or policies.
9. With reference to **Section 5.5** of the Compact, Nepal declares that provisions under the Compact which survive after the expiration, suspension, or termination of the Compact shall only relate to the Compact programme and the use of MCC Funding, including for evaluation of the projects under the Compact, audits, and settlement of taxes.
10. With reference to **Section 7.1** of the Compact, the programmes under the Compact shall be implemented by complying with the Compact and in accordance with the domestic laws of Nepal.
11. With reference to **Section 8.1** of the Compact, 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.
12. With reference to the letter dated September 8, 2021 perceived by Nepal from the Millennium Challenge Corporation, Nepal understands that the responses in the said letter shall aid in the interpretation and the implementation of the Compact.

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