

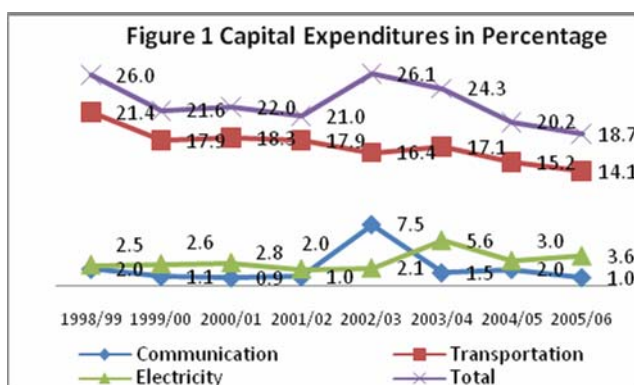
Challenges and opportunities in upscaling infrastructure in Nepal

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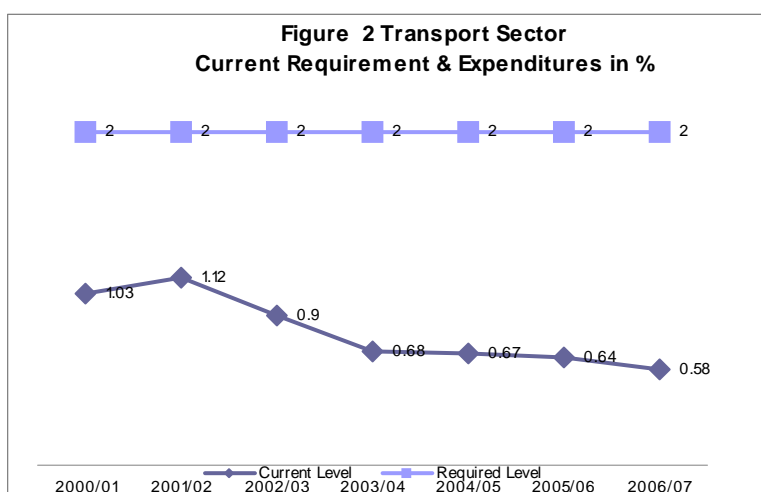
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Investment levels

Infrastructure has remained a backbone to the economic and social development of the country. Efficient infrastructure services help to generate job opportunities as well as create an environment for additional income generation. The Government's agendas clearly



show the priority for infrastructure development but failure on the part of effective implementation has constraint the desired level of progress in these sectors. This is reflected by a low utilization of resources. During the period 1998 to 2005/6 the Nepal Government expenditure¹ in infrastructure sector



covering transport, communication and hydropower ranges only from 26 % to 18.6 % with an average annual expenditure of 22.5 %. In order to boost the economic growth of the country, resource allocations and the expenditures must be in line with international

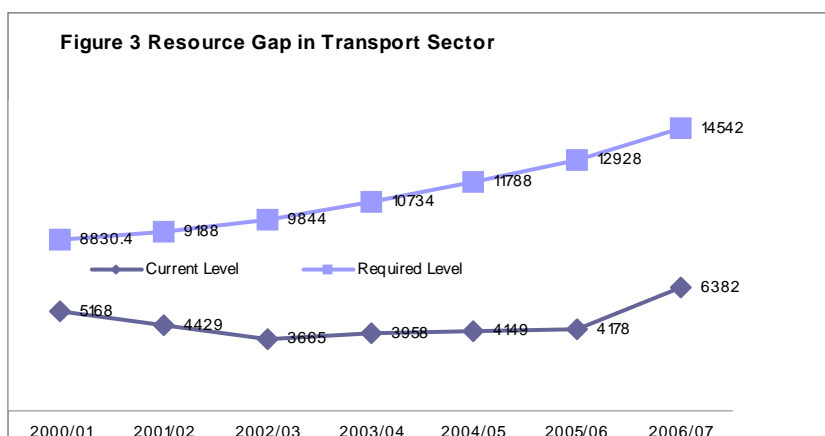
norms and practices where more prosperous countries are embarking on higher allocations in physical infrastructure to create additional employment opportunities as well as supplementing synergic impact on other developmental outcomes. A general pattern shows that expenditures of the developing countries in the road sector is equivalent to 2 % of the GDP. This level of expenditure is accepted as a standard practice to achieve meaningful sectoral impacts. A typical case is that of Bhutan where the road

¹ Economic Survey, Ministry of Finance, GoN

sector expenditures stands around 2.5% of the GDP. However, unlike Bhutan and other developing countries, Nepal stands significantly behind in terms of transport sector expenditures. In Nepal, the total transport sector expenditures, shown in Figure 2, amounts less than 1 % of the GDP.

Emergence of private sector

Figure 3 gives an overview of the resource gap in Nepal’s transport sector and indicates a widening gap between the desired level and the actual level of expenditures. In 2006/07, the resource gap in the transport sector was an estimated 9 billion NRs. If the major physical infrastructure sectors² are considered, the resource gap could be to the tune of annually 20 billion NRs



which is equivalent to half of the current capital expenditures³ (FY 2006/07).

The present challenge for the government is to overcome the problem of ensuring

sufficient funds for the development of infrastructure in the country. The Government places a lot of emphasis on an effective mobilization of internal resources, donor support and attracting and encouraging the private sector to participate in financing infrastructure development. Encouraging results are being reported in internal revenue collection. Within the next three months, the Government and its Developing Partners are scheduled to discuss the future prospects of securing additional bilateral and multilateral support in the National Development Forum (NDF). To solicit private sector investment, the Government is working seriously on a Public Private Partnership (PPP) approach. Several hydropower schemes are already in the pipeline either already awarded or in the process of negotiations. A second International Airport at Neejgrah is being studied for feasibility under a private sector investment. Preparation for Kathmandu Terai Fast Track, which is being implemented with private investment, is underway to issue Request for Proposal (RFP) to short listed investors.

Earlier, it was assumed that the responsibility of developing and managing the physical infrastructures lie solely on the Government, the only agency to finance schemes to improve public service delivery. To some extent, it was

² Electricity, Communication and transport

true. However, the present context has changed as the private sector is now demonstrating a faster growth rate and its comparative capability to manage public infrastructures enhancing. It is also pertinent that the traditional approach is now weakening as it has failed in bringing effectiveness and innovativeness in dealing with the management of the infrastructures.

With the introduction of PPP, there has been a marked shift in the Government policies to consider the private sector initiatives at par with the Government development plan. For developing countries like Nepal, the widening gap between the resource demand and the actual expenditures is a serious concern. Thus, a strong case for capitalizing on private sector efficiencies together with partnership in resource utilization is emerging. A strong private sector can act in a responsive manner if transparency and competitive atmosphere is maintained throughout the planning and contract award process. As a result, PPP is now emerging as an ideal model for developing countries to adopt as part and parcel of the development plan.

Fig 4. Comparative Advantages of PPP

- Acceleration of Infrastructure Provision,
- Faster Implementation,
- Value for Money,
- Partnership Building,
- Enhanced Public Management,
- Genuine Risk Transfer,
- Clearly Defined Output Specification,
- Asset Performance & Reduced

An increase in sector allocations means additional volume of works for consulting firms engaged in designing and supervision of infrastructure development. In case of PPP, the role of consulting industry is not limited in providing only the engineering services. Their role in facilitating and soliciting the private sector to invest in infrastructure development becomes more important and crucial for PPP success. PPP itself is being an institutional innovation technique which overcomes the current weakness in the system, the role of consulting industry faces a competitive challenge in this field. As PPP is a robust and commercially sustainable model for development, it demands a creative and innovative approach in dealing with the infrastructure needs and value for money. This calls for an innovative approach with application of latest state of arts in designing and executing infrastructure services. Thus, the role of consulting industry is not only going to increase significantly in coming years but equally will become challenging especially in demonstrating the local capacity and capability in executing and managing infrastructure development projects in the country.

³ Capital Expenditures, Economic Survey, MoF

Shifting roles

The outcome of the process encouraging involvement of private sector in upscaling the provision of infrastructure also depends on the strength to cope with the current challenges in infrastructure development and management. To recognize the potential and steer the construction industry as a major contributor to development impetus, the Government is making all efforts possible within its capacity. A Strategy Plan for the construction industry has been prepared with wider consultation which now awaits the final approval from the Construction Business Development Council chaired by the Hon' Minister of Physical Planning and Works. The development of the Strategy Plan is the outcome of the coordinated and cooperated efforts of all the stakeholders of the construction industry including the Government, SCAEF and Federation of Contractors Association. After the approval of the Strategy Plan, proposals will be made to the Government for an amendment to the existing Construction Business Development Act 2055 to incorporate the necessary provisions to stimulate the industry.

The Government has also prioritized the drafting of an act on "Consulting Industry" with its role a patron that will recognize and support the industry to face challenges mentioned above. The Asian Development Bank (ADB) is currently assisting the Government in this regard. A team of professionals including legal, management and technical experts has already been constituted and it has already started working.

The Government, the consulting and construction industry and the private sector working together for the common cause of the building nation, can bring remarkable changes in quality of life of the people through the delivery of effective and efficient infrastructure services. There is a need now to strengthen the role of each agency with clear guidelines and growth oriented focus. This is the key for boosting economic and social prosperity of the country.