



The Procurement Process of World Bank Funded Projects and Government Funded Projects in Nepal: Exploring Sustainability through Procurement

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ABSTRACT

In the Nepali construction industry, selecting the contractors based solely on the lowest bid is a common practice. While the low bids may initially appear cost-effective, they often lead to the long-term consequences that can have a negative impact on the project quality, sustainability, and timely completion. In response to the bids from the clients, the contractors often submit the abnormally lower bids, which do not align with the preliminary estimates of an engineer. This paper aims to identify the problems associated with the low bidding. Due to the low bidding practices, the contractors have to work with invariably low profit margins. As a result, they accept the low quality products, low quality goods, lack of utilization of skilled manpower, and low-quality constructions. The sub-contractors are also not benefited from this practice. Furthermore, there are various issues such as the front-loading effects associated with the low bid practices. However, the World Bank funded projects are not completely driven by the low bidding amount only. Unlike the Nepal Government funded projects, the World Bank funded projects analyze different constraints such as the uncertainty factors and cost overruns. This paper seeks to investigate a comparative study of a bidding processes of the Nepal Government funded projects and

the World Bank funded projects. The study is exploratory in nature. The data have been collected from the secondary sources and key informant interviews (KIIs). Moreover, this study concludes that the concerned authorities need to rethink the procurement evaluation practices. Various strategic methods such as the “identify, clarify, analyze, and decide” method could be adopted for the best bid selection. There is an utmost need

to understand that sustainable and qualitative works comes only at some cost by the stakeholders and the authority.

KEYWORDS: Development projects, public procurement, procurement process, low bidding, sustainability

INTRODUCTION

Public procurement generally refers to the purchase of goods or services by the government entity using a public fund. When a government wants to purchase any kind of services or goods, they hire someone outside the government to accomplish the project. To address this need, there exists a process called a “procurement process”. There are various kinds of procurements such as direct procurement, indirect procurement, goods, and services. The government institutions have to undergo some process before carrying out a procurement within the framework of Public Procurement Act (PPA, 2007) and Public Procurement Regulations (PPR, 2007). In Nepal, the construction is one of the major activities in the realm of procurement. There are provisions for the direct procurement of the construction services also, but most of the construction works are usually carried out through the indirect procurement processes. In the indirect construction procurement system, the process usually starts with the assessment of the needs for the construction of any kind of infrastructure. The budget is finalized for the related works, and after the financial inclusion, the project is then preliminarily estimated by an engineer. The preliminary estimation of an engineer would provide us the estimated amount. After this, the institution procurement section undergoes certain official processes and finally the issue is noticed regarding the need for the construction services. This is known as “call for bidders.” In response to the bid documents submitted by the corresponding office, the contractors express their interest by submitting their own estimated amount.

The amount submitted by the contractors in response to the bid document is known as “bid amount.” The number of bidders could be in any amount. However, according to our procurement practice, the one submitting the lowest bid amount will ultimately win the contract. In the construction industry, a “low bid” refers to a bid submitting the lowest price, including the chosen alternatives, and adhering to all bidding requirements (Harris, 2006). As per our practice, the one submitting the lowest bid amount will be handed an authority for carrying out the construction activities from the government side. The low bid concept was introduced because it was believed it would be easier to carry out the cost-efficient construction and to be able to ensure the least expensive option. In addition, it would help in maintaining transparency. The bidder with higher financial capacity will not get to play under a low-bid policy.

However, the low bid is being practiced with the ample drawbacks. In response to the low-bids, the firms have been submitting the amount much lower than the preliminarily estimated amount which is also called as an invariably low bid amount. Many studies have suggested that the contractors are submitting the bids up to the 40% lower than the preliminary amount. Such type of bids could be termed as abnormally low bids (ALBs). There are not yet fixed specifications for the ALBs, the bid amount lower than 30% could be termed as abnormally low bids. Bhattarai (2015) concluded that the trend of low bidding was increasing in Nepal also. The contractors are bidding low just for the sake of winning, the quality is not even into the considerations. When the contractor submits the lower range bids, unaligned with the engineer’s estimate, then it will be difficult to describe how the contractor will be able to do the work profitably. The contractor would not be able to deliver the quality in his construction works. The

contractor would take the work in invariably low bids, maintaining everything from the bid amount. The construction items, labor charges, and profit margins are all to be accounted from the low bid amount. In doing so, the contractors are likely to opt for the compromised quality of goods, labor exploitations, low-quality workmanship, incomplete designs, and many other setbacks. The profit margin becomes nearly zero, or whatever the idea contractor makes up, the profit margins are always low. This is the situation of unbalanced bidding which continues to be a controversial issue in the realms of sustainable practices.

As noted by Niroula and Nepal (2024), there are many reasons which drives the contractors for low bidding, such as (1) incomplete information, (2) portfolio building, (3) cash flow needs, (4) competitions, (5) client expectations, and (6) market pressure. The above mentioned are not only the reasons for low-bidding. Whatever the reasons for low-bidding, the winners will find it difficult to carry out the profit and ultimately the quality is compromised in the construction. The scenario is the same as the term “winners curse.” The contractors suffer from the winner’s curse for various reasons such as an inaccurate estimate of the project cost, which will lead the contractor to many of a financial setback (Capen et al., 1971). Many contractors expect the price of a material to go down during the construction phase, which is very rare. The contractor will have to bear all the loss by himself or herself if the price does not go down. The uncertainty factors and the cost overruns of the project are generally not considered in our estimates and bidding systems. Crowley and Hancher (1995) have considered it as a predatory bidding. Such bidding practices will lead the contractors to face the poor economic conditions; consequently, the low cash flows which might shut down the businesses, too.

The issues of delayed construction work in Nepal are common. Low bidding is one of the major causes for the delayed construction works in Nepal (Bhattarai, 2023). The delayed construction works have hampered the nation’s economy. Moreover, such delayed practices have not created a positive impression among the donors as well. The low bidding practices have also invited the problem in the construction industry, i.e. lack of utilization of using the skilled manpower. The skilled manpower is not capitalized because they should be paid in the higher amount, and the contractors do not have that much financial capacity to pay them. This creates a problem of skilled personnel stagnation in the society. This might invite an issue of brain drain in the country. One of the major problems seen in the Nepali construction industry is the “front loading” effect. The front loading in the construction refers to the situation where a tender submitted by the selected contractor has loaded or tried to cover most of the large cost at the initial period of the construction; in other words, the contractor has submitted the higher amount for the items which will occur in the initial phase of the construction, and the lesser amount for the items that will be occurring for the next phases. There is a higher chance that the contractors would withheld a project after certain initial works and demand for a price adjustment. This will never create a good relationship between the authority and the contractor. In fact, such practices have created an adversarial relationship between them. Obviously, the idea was useful for maintaining transparency and completing the cost-effective construction; however, it is clear from the studies that the low bidding system has invited various problems. Here, the low bidding has acted as a double-edged sword (Liu et al., 2014). It has advantages but not in compliance with the quality delivery and job-satisfaction.

Our procurement system has only been the processed-oriented rather than the result-oriented. Selecting a contractor based on price only diminishes the importance of other factors such as time and quality. The preliminary estimates do not consider on the

various factors such as the cost overruns and uncertainty factors. In many of the cases the estimates are found preliminarily unpleasing for the contractors, and hesitation definitely prevails in order to express the interest (Farshidpour et al., 2021). The analysis of the cost estimates of the similar projects within the same geographical region has allowed for a clear understanding that the gap definitely exists between the preliminary estimate and the final project cost upon the project completion. Therefore, the cost estimates also should infer something into it. Our policy truly requires some policy shift in the bidding trends. Various scholars have even worked on the possible alternative bid selection method. The strategical change such as an average low bid method or the second low bid method could remedy the problems created by the lowest bid amount strategy. Awadd and Ionnau (2012) stated, "The second-low bid method remedies an important shortcoming of the low bid method which is awarding the project to unrealistically low bid prices that are likely to cause problems during construction" (pp. 62–70). The second low bid method could be effective for the various shortcomings of the low bidding; however, it could also open to the unethical collusion among the bidders. The contractors would partner with a dummy company and let it submit extremely low bids. There are various other alternative bidding methods suggested. Schöttle and Arroyo (2017) studied multi-criteria decision making methods which involves three methods: weighting-rating calculating method, best value selection method, and CBA (choosing by advantage) method. These are the appropriate decision-making strategies in the selection of bids. These kinds of studies have highlighted the importance of appropriate selection strategies along with the technical selection method. The best bid value could be selected from the above three approaches. This paper concluded that the strategic selection of the bidders proves to be very effective in the later stages of the project. The problems of front-loading could be omitted through those strategies. Therefore, it is necessary to implement the strategic framework for the selection of best bidders in our procurement practices.

Whilst the procurement works are also carried out for the donor agencies such as ADB and World Bank. In the procurement of the World Bank project, there is a provision that the firms not bidding a lowest project amount might not be awarded the contract. The evaluation of the World Bank is done at the various stages: first, they demand the EOI (Expression of Interest) from the firms and shortlist the eligible firms; second, they call for the RFP and again shortlist the qualifying firm; and, third, they go for a financial evaluation. In the evaluation processes of donor firms, they are evaluated on various basis such as their experiences, the quality of manpower's they possess, quality of the construction works, and their past records, evaluation of the key experts from their company. As per the guideline of World Bank, the evaluation of bidders is done on the (80:20) basis. The 80% of the marks is evaluated for the financial proposal and the 20% is for the quality analysis. The quality analysis accounts for the factors like the approaches and methodologies to constructions, and the availability of key experts, check for the item front-loadings, and check for ALBs. In short, there are many factors that come into play while evaluating the bids of donor agencies projects. The lowest bidders are not necessarily a winner in such projects. These are the approaches for the procurement evaluations in world bank projects. Furthermore, the abnormal low bids are also common in such donor funded projects. However, the World Bank funded projects also have a provision to account for the ALBs. In every donor funded project, first of all, the ALB's is checked through a certain deviation formulas and calculation. For example, ADB (Asian Development Bank) has a provision to check whether there are ALBs or not. They adopt the "identify, clarify and analyze and decide" strategy for the case of

ALB's. Likewise, Mishra (2022) studied about the bidding trends in the major roads and bridges projects in Nepal. The study concluded that the collusive bidding exists in the major bridge projects also because of the rare chance of contractors to get work if they do not bid a low price. It suggested that the contractors should be asked a clarification about why there has been a low bidding. The contractor should then provide an amicable work schedule and pricing. There is an utmost need to realize that the cost-effective construction is not the only side to be looked at. There is a need to reinforce the practices that would be sustainable as well as cost-effective. Thus, this study is based upon the comparative study of the procurement methods and their account on the anomaly factors like ALBs and front-loading effect, which generally prevails in the construction industry of Nepal.

RESEARCH METHODS

Research Design

The study aims to know whether the low bid amount is necessarily an ultimate winner or not. It also requires to find out whether there is a provision for the assessment of abnormally low bids and front-loading effect in the bids submitted by the contractors. The government project procurement has comparatively been studied with the World Bank funded projects procurement system. The variables for this study are non-measurable, using the interviews. Therefore, the present study is qualitative in nature. The procurement data related to this study are obtained from the Pokhara Metropolitan City procurement department and the World Bank sites; therefore, the data used for this study are the secondary sources data.

Study Area

The study area is mainly based on Pokhara Metropolitan City. The city has two running World Bank funded projects. It is also reported that the projects have the higher procurement rates in a single fiscal year. Generally, in a procurement business the item rates may differ from one place to another, or even from one government authority to another authority; therefore, the data have been confined to a single authority.

Sample Size

The purposive sampling method is applied. The data are obtained from the procurement department of Pokhara Metropolitan City. The procurement data of Infrastructure Development Division of Pokhara Metropolitan City have been collected for the study. The progress report of the Infrastructure Development Division for the year 2024 has also been collected. This study also requires the data for the ongoing World Bank funded projects in the Pokhara Metropolitan City area. There are two projects; therefore, the data for the ongoing projects have been received from the study area, as it can be obtained from the World Bank sites. In 2024, there were 105 contract awards and 20 contracts have been received from the World Bank projects. Therefore, altogether this study consists of 125 data as sample size.

Methods of Data Collection

The data were collected from the Pokhara Metropolitan City procurement department. The procurement list of Infrastructure Development Division has been accounted for the year 2024. In addition, two running construction projects of the World Bank have been selected. The government authorities provide those data on a public demand. Nowadays, they are even uploaded in the respective browsing sites. Along with

data obtained, this study has been conducted through the key informant interviews directly from the authorized personnel by taking the detailed notes and from the observations.

Methods of Data Analysis

Thematic analysis has been employed for the study through the key informants' interviews and secondary sources, including print and e-resources. Following the data collection, initial codes were generated mainly by highlighting the significant aspects of the procurement and then the codes were organized into the broader themes. The themes were then reviewed for the relevance of research questions. The reviews were done by engaging in several discussions with the procurement experts.

Ethical Considerations

This study has been conducted with full ethical considerations. There has been no any kind of data manipulation or malpractices. Through the informed consent, the interviews and data collection activities were conducted for the study. This study was conducted inside the premises of government authority.

RESULTS AND DISCUSSION

There are various categories inside the procurement of construction activities such as direct procurement, sealed quotations, National Contract Bidding (NCB) single stage single envelope, NCB single stage double envelope, and the ICB (International Contract Bidding). This study deals with the data mainly related to NCB for both the categories. As per the PPR, 2007, for the project above (2,00,00,000) NCB single stage double envelope is used and for the project below (1,00,00,000), NCB single stage single envelope is used. The study has been carried out for the projects above 1,00,00,000 of Pokhara Metropolitan City Infrastructure Development Division for 2024. As the low bid amount is the ultimate winner in the Nepali practice, the trends of low bidding are observed through the obtained data for the Nepal government funded projects. Whilst in the World Bank funded projects the QCBS (Quality Cost Based Selection) method of procurement system is used. There are two running World Bank projects within the Pokhara Metropolitan City premises. The data for those two projects have been collected.

Results

The data obtained from the Procurement Department of Pokhara Metropolitan City have been presented below:

Table 1

No. of Projects for Pokhara Metropolitan City Infrastructure Development Department for 2024

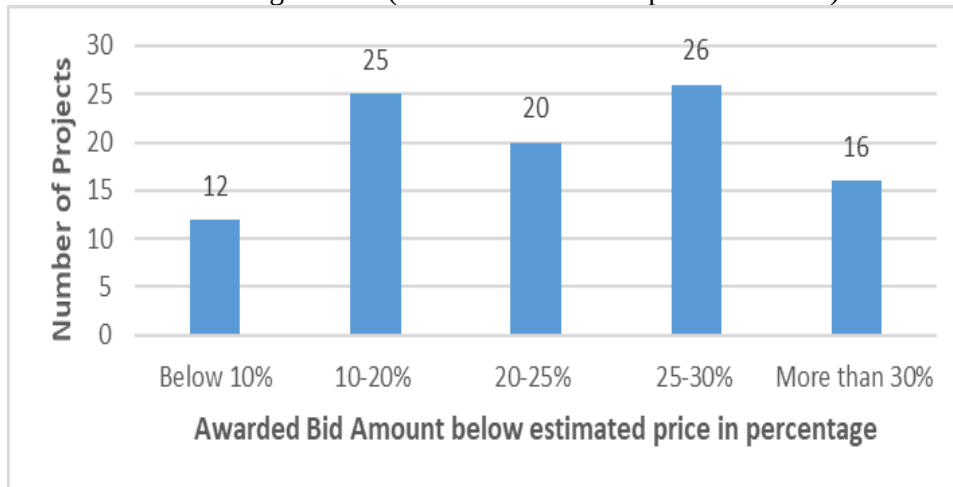
	Number of Projects
Total Number of Projects	105
Projects above 1 crore	23
Projects below 1 crore	82

The above table depicts the scenario of completed projects for the Pokhara Metropolitan City Infrastructure Development Division in 2024. The above table suggests that the total number of projects completed is 105 in which 23 projects are found to be above one crore whereas other 82 projects are found to be below one crore.

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Those projects are further subjected for the further analysis, in respect with their bid percentages.

Figure 1

Trends of Low Bidding in 2024 (Infrastructure Development Division)



The above bar graph represents the trends of low bidding of the Infrastructure Development Division for 2024. As from the bar graph, it can be seen that the highest numbers of low bidders are found within the range of 25-30 percentages. The bidder's chances of winning the contract within the range of 10% is extremely low in number. The bid amount more than 30% less than the estimated amount is also very high in number. In sum, the trend shows that the bidders submitting their bid amount less than 25% of the estimated are very high in number, which shows that the cases of abnormally low bids are higher in number.

There were two road upgradation running projects in Pokhara Metropolitan City. Those two projects are termed as NUGIP (Nepal Urban Governance Improvement Project). In the case of World Bank projects, the procurement data accumulate the bid amounts submitted for the project. In the case of World Bank projects, the lowest bidders are not the winner as shown in the table below.

Table 2

Bid Amounts Submitted for the Upgradation of NUGIP Road Upgradation Project Bid Reference: NP-DUDBC-395280-CW-RFB

Firms	Bid Amount for the Project	Remarks
Firm 1	678034785	Winner
Firm 2	834137773.9	
Firm 3	76301266.36	
Firm 4	780046997.4	
Firm 5	79201531.96	
Firm 6	682861234.5	
Firm 7	819983571	
Firm 8	673016044.5	
Firm 9	836002877.9	
Firm 10	781191359	

The above table represents the number of bidders, for the above-mentioned bid reference, with their respective bid amount in the world bank funded projects for the year

2024. As can be seen from the table, Firm 8 is the lowest bidder in the projects, although the respective firm is not the winner. Firm 1 submitting the second lowest bid amount is the winner for this bid reference project. This table implies that the lowest bidder is not the necessary winner in this case.

Table 3

Bid Amounts Submitted for the NUGIP Road Upgradation Project Bid Reference: NP-DUDBC-167805-CW-RFB

Firm Numbers	Bid Amount for the Project	Remarks
Firm 1	754867873.9	Winner
Firm 2	896572230.7	
Firm 3	752108219.6	Lesser than Winner
Firm 4	8155262231	
Firm 5	752108219.6	
Firm 6	815526226	
Firm 7	818071244	
Firm 8	734215155.1	Lowest
Firm 9	755229829	
Firm 10	91525167.44	
Firm 11	775942890.4	

The above table represents the number of bidders, for the above-mentioned bid reference, with their respective bid amount in the world bank funded projects for the year 2023/24. From the above table, it can be seen that the one bidding lowest amount, has not won the contract. Firm 1 is the winner in this case. However, there are two firms who have submitted the lower amount than Firm 1. The one with the lowest bidding amount, Firm 8 is low by a fine margin. In addition, Firm 3 has also submitted less bid amount than the winning firm. In sum, the one winning the contract is not the lowest bidder in both the cases. This supposedly suggests that the lowest bidder is not an ultimate winner.

Discussion

The above results state that, in the World Bank procurement system, the low bidding is not necessarily a clear winner whereas in the Nepal government project procurement system, there are no any alternate winners other than the low bids. The World Bank funded projects adopt a QCBS method of the procurement practice. In the QCBS approach, the procurement is done in the two steps which are the technical stage and the financial stage. This approach evaluates both the technical quality of the proposals and the cost, aiming to find the best balance between the two. It is done in two stages. In QCBS, two proposals are demanded by the authority. One proposal is the technical proposal and the other is the financial; therefore, the evaluation is carried out in two parts.

The first part of the application is the technical one. This is a part where the quality of the bidders is assessed. In the quality status evaluation of the bidders, various factors such as working capacity, quality assurance plans, and procedure are studied. The bidders must submit an approach and a methodology in their application. The work plan, implementation schedule, and resource management to ensure the timely completion. Moreover, it also tends to discuss on one of the crucial factors like the cost-overruns and uncertainty factors. All those things are incorporated in this technical section. In addition, the second one is the financial proposal. This part looks at the cost of the

proposal, considering the pricing for the work to be done. It includes a bid price submitted by the contractors.

According to the revised procurement guidelines of World Bank 2016, the evaluation is to be done with the ratio of 80:20. This implies that the financial evaluation bears an 80% of the total marks, and the technical evaluations bears a 20% of the total marks. The quality factors also play some role in the evaluation under this system. The equation for the QCBS is designed in such a way that the bid amount is not only a governing factor for the contract winner. The formula for the final score in QCBS is calculated something like this:

$$\text{Final Score} = (\text{Technical Score} \times 0.2) + (\text{Cost Score} \times 0.7)$$

As seen in the result section, unlike the NCB approach, the low bid amount is not necessarily the ultimate winner in the procurement business. The quality factors bear some considerations into an evaluation (that is a weightage of 20 percentage); therefore, the output on the quality-cost based approach is not a low bid winner.

Whilst in the government projects with the NCB double envelope single stage procurement practice, it is also evaluated on two terms: financial and technical. However, the quality factors are not much of a concern over here. They are checked on a very basic aspect and is not much demanding. They do not bear any kind of evaluation marks. The incisive checking is done on the lowest bid amount. Therefore, in this case, the bidders have the chance to go below any value of their bid amount.

While the bidders can submit any amount below the estimated price, the anomalies like ALBs begin to appear. The contractor may have the freedom go up to 40 to 50 percentage below the estimated price and win the contract. Along with it, there may exist another anomaly called front-loading effect. The contractor may fulfill the major initial works with the higher prices and other secondary stage works with the lower prices. In addition, once the contract is awarded the contractor may take the initial work bills. As the bid amount is invariably low, the contractors may have a higher chance to utilize all the money for the works that too without much profitability margins. The major reason on the contractors doing so, maybe the contractors want to reduce their risk exposure as early as possible. This may tempt the contractors to use the funds inefficiently, potentially leading to delays or quality issues in the later stages of the project. Front-loading could be seemingly advantageous for the contractor in the short run. It may backfire the contractor creating the stresses in the final stages of project completion. This might lead to unsettled relationship between the contractor and the project owner. This situation is only giving incentives to the adversarial relationship between the stakeholders and the contractors. Therefore, there is an utmost need for the detection of ALBs and front-loading.

The issues of the front-loading must be initially addressed. The issues of front-loading maybe sometimes mitigated by paying a closer attention to the bid response estimates submitted at the time of bidding. The PPR, 2007 does not have a provision to check for the front loading. However, in the revised World Bank procurement guidelines, there exists a provision for the front-loading check. As per the KII's, it was known that the ALBs exist in the World Bank funded projects as well. But World Bank, in their revised guidelines, prior to 2016, they have made the provisions for the front-loading analysis. For this, they adopt the "identify, clarify, and analyze" method.

For the ALBs check, the bid amount from all the bidders are tabulated. From all the bid values obtained, the standard deviation is calculated at first. Then, the standard deviation value is calculated and accounted on the bid prices. Low biddings are identified through the overall estimates at first. Secondly, the major BOQ (Bill of

Quantities) items are evaluated. If the major items do not fulfill the correct pricing, the person has the authority to ask for the justification with the contractors. Through the justification, the bidders may claim that I have my own business, the items are already on the stocks or any other valid reasons. After all those analyses, finally it is upon the authority to decide on whom to award the contract. In such a way, the possibility for front-loadings is checked under the World Bank guidelines. Such practices may help in building a smooth relationship between the authority and the contractors. This might be a balanced approach for the evaluation of the contract biddings in the crucial projects. Along with this, it is also necessary for all the stakeholders and the public officials to understand that sustainable and qualitative works in the construction comes only at some cost.

CONCLUSION AND RECOMMENDATIONS

This study was conducted to compare the procurement between the government projects and World Bank funded projects. It is true that the low bidding has invited various problems in the field of construction. The procurement practices are solely based on the low biddings. It is understandable that the low bidding is one of the methods to ensure a cost-effective construction and transparency in the procurement realm. Nevertheless, there are various problems associated with it. The low bid amounts are also understandable in this business. There might be a various motivation for a contractor for the submission of lesser amount. However, some other factors should also be employed in this evaluation. There must be some kind of policy shift in the procurement guidelines. Evaluation should also be governed by other quality factors like an approach and a methodology. Like the quality cost-based approach, the procurement regulation could infer some monetary activities on the basis of other factors along with the cost. Furthermore, for the promotion of healthy relationship between the stakeholders and the contractors, the procurement regulation might include a provision for check for ALBs. In doing so, it could remedy the various short-comings of the lowest bid approaches. It is important to understand the importance of sustainable practices in the developmental works as well. The cost-effective construction is necessary but it should be sustainable as well. It is important for the stakeholders and the officials to understand that the sustainable and qualitative construction comes only at some cost.

Based on the findings of this study, the following recommendations should be adopted by the government and policymakers for the appropriate bid selection method to ensure the sustainable practices:

- The QCBS approach could be practiced for the higher amount projects.
- The strategic selection framework could be developed such as the weighting-rating method or best value selection method, or the CBA (choosing by advantage) method.
- To avoid the front loadings, the “identify, clarify, analyze, and decide” strategy could be adopted.

CONFLICT OF INTEREST DECLARATION

I hereby wish to declare that I do not have any conflict of interests to disclose. However, I declare that the manuscript has not been published before and is not being considered for publication elsewhere.

AUTHOR CONTRIBUTIONS

I declare that this manuscript is originally produced by me.

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Kshitiz Poudel is currently pursuing his PhD in Development Studies at Pokhara University, Nepal. With a strong academic foundation in engineering, he has a deep interest in the intersection of infrastructure, sustainable development, and social progress. His research integrates technical expertise in structural engineering with a broader understanding of developmental challenges, particularly in the context of Nepal.

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