

# Opportunities and Challenges of Public-Private Partnerships in Nepal

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Abstract	Article Info.
<p>Public-private partnerships (PPPs) represent a strategic collaboration between the public and private sectors aimed at achieving shared objectives, particularly in the provision of public infrastructure and services. In Nepal, PPPs have emerged as a significant strategy to address the country's pressing infrastructure and service delivery challenges. This study investigates the implementation and development of PPPs in Nepal, analyzing specific projects and reviewing existing literature to identify both the benefits and challenges associated with these partnerships. The findings reveal that while PPPs have the potential to attract private investment, enhance efficiency, and promote economic growth, they face several obstacles. Key challenges include an underdeveloped legal and regulatory framework, limited government capacity, and issues related to accountability and transparency. The necessity for a clear regulatory framework is paramount, as it would provide the guidelines needed for effective collaboration between public entities and private investors. Moreover, enhancing institutional capacity and establishing robust accountability mechanisms are crucial for strengthening the PPP model in Nepal. By addressing these systemic challenges, Nepal can better leverage PPPs to improve its infrastructure, stimulate economic development, and enhance public service delivery. This study provides insights into optimizing the PPP framework in Nepal, aiming to maximize the benefits of such partnerships while mitigating associated risks.</p> <p><b>Keywords:</b> public-private partnerships, infrastructure, investment, efficiency, economic growth</p>	<p><b>Corresponding Author</b> Pramshu Nepal, PhD</p> <p><b>Email</b> pramshunepal@gmail.com</p> <p><b>Article History</b> Received: 10 Aug. 2024 First Revised: 28 Sept. 2024 Second Revised: 02 Oct. 2024 Accepted: 12 Oct. 2024</p> <p><b>Cite</b> Nepal, P. (2024). Opportunities and challenges of public-private partnerships in Nepal. <i>International Research Journal of Parroha (IRJP)</i>, 3(1), 13–19. <a href="https://doi.org/10.5281/zenodo.13991364">https://doi.org/10.5281/zenodo.13991364</a></p>

## Introduction

A public private partnership is a long-term, cooperative arrangement between two or more public and private sectors (Hodge & Greve, 2007). Public-private partnerships (PPPs) are a general term for numerous types of partnerships between organizations in the public and private sectors. PPPs call for the public and private sectors to share risks, duties, and benefits in order to accomplish a shared objective (Mishra, 2020a). PPPs are defined differently depending on the context, but generally speaking, they relate to a long-term partnership between public and private sector companies

where the private sector delivers a public service or facility in exchange for payment.

The World Bank defines PPPs as "long-term agreements between the public and private sectors, in which significant private sector financing, administration, and operation are brought to bear on the provision of public infrastructure and/or services" (World Bank, 2020).

PPP makes best use of the resources that a private firm has to offer in terms of people, technology, and skills. They can increase their experience and knowledge in the industry by fully utilizing the expertise of the private sector (Dhakal, 2020).

The PPP model enhances limited public resources, fosters greater competition, and aids in increasing efficiency and lowering prices. Varied types of services have different justifications for public sector involvement, which affects the degree of involvement needed (Paul & Margaret, 2003). PPPs can be used to offer a variety of infrastructure projects and services, including those in the fields of transportation, electricity, water supply, waste management, health care, and education. PPPs have been put into practice in numerous nations all over the world and have been utilized to offer a variety of services and infrastructure projects.

PPPs are a relatively new idea in Nepal, and the nation's legal and regulatory framework for them is currently being developed. However, the Nepali government has been actively supporting PPPs as a strategy to draw in investment from the private sector and enhance the provision of public services.

In Nepal, government first started promoting PPPs in the early 2000s, but the first PPP project was not implemented until 2009. The project involved building and running the 76-kilometer-long, four-lane Kathmandu-Tarai Fast Track, which connects Kathmandu with the southern plain of Nepal. The project was carried out using a build-operate-transfer (BOT) approach, with tolls used to cover project costs and private sector investment in the building and upkeep of the road. Since then, the Nepali government has carried out numerous PPP projects in a range of industries, including transportation, electricity, water supply, and tourism. In order to offer centralized coordination for PPP projects, the government has also established institutions to promote PPP implementation, such as the Public Private Partnership Unit under the Ministry of Finance.

The PPP initiative in Nepal, however, is still in its infancy and faces a number of difficulties. These include the absence of a legal and regulatory framework for PPPs, a lack of public knowledge of the advantages of PPPs, and a lack of government competence to develop and administer PPP

projects. The Nepali government has been taking action to overcome these issues and enhance the country's PPP environment.

### Literature Review

Batjargal & Zhang (2022) stated that historically, governments have been responsible for providing public goods and services. However, the recent establishment of public-private partnerships (PPP) aimed to optimize the combined resources of both sectors to improve and expand public infrastructure and services. Although such collaborations had been used in the past, a significant shift occurred in the 1990s and early 2000s, with many governments globally adopting various PPP models. This period saw a rapid increase in the use of PPPs, as they became the favored approach for procuring infrastructure and services. This paper explores the literature on PPPs, focusing on their historical evolution, key motivations, types, forms, advantages, and the challenges they face today.

Nie et al. (2021) considered that while both the public and private sectors work towards the same project goals, they each seek their own benefits. The public sector aims to enhance infrastructure quality, reduce financial burdens, increase investments in infrastructure projects, and boost economic efficiency. Conversely, the private sector focuses on enhancing its brand value and earning profits. The primary reason for forming a PPP is to create a win-win situation for all involved parties.

Huque (2021) identified several challenges that PPPs may encounter, such as difficulties in accessing and managing financial resources, a lack of trust between partners, ineffective monitoring and enforcement systems, and vague agreements regarding the distribution of responsibilities and risk-sharing.

Nie et al. (2021) also considered that PPP projects attempt to create mutually beneficial outcomes for both the government and the private sector. Carbonara and Pellegrino devised a methodology to identify the optimal revenue range, ensuring fair risk-sharing and win-win conditions for both parties.

Heydari et al. (2020) provided that Public-Private Partnerships (PPPs) are a means for the public sector to access alternative funding and expertise from the private sector to support public infrastructure projects. Governments globally are increasingly relying on PPPs to supply essential goods and services. However, similar to other forms of public procurement, PPPs are inclined to corruption. This book starts by explaining the fundamentals of PPPs and the associated challenges. It then examines the susceptibility of different stages of PPP models to corruption, using contract theory, principal-agent theory, and transaction cost economics as frameworks. The book also explores potential control mechanisms and emphasizes the need for good governance in PPPs. It details the principles and procedures of project risk management (PRM) developed by the Association of Project Managers. The book concludes by offering strategies and solutions to address the limitations and challenges of the current PPP approach.

### Research Objective and Methodology

The objective of this article is to explore the implementation and development of public-private partnerships (PPPs) in Nepal, examining their potential benefits, challenges, and opportunities for improvement. By analyzing specific PPP projects and reviewing existing literature, this study aims to provide insights into the current state of PPPs in Nepal, identify factors that can enhance their effectiveness, and propose strategies to strengthen the PPP framework in the country.

This study utilized a mixed-methods approach to analyze recent public-private partnership (PPP) initiatives in Nepal, focusing on sectors such as transportation, energy, water supply, waste management, tourism, health, and education. The research involved a comprehensive review of existing literature, including key studies by Sansom (2006), Grimsey and Lewis (2007), and Andres et al. (2008), to establish a theoretical foundation. Brief studies of specific PPP projects, such as the Kathmandu-Tarai Fast Track and the Upper Trishuli 3A Hydroelectric Project, were conducted

to provide practical insights. Data collection included qualitative interviews with stakeholders from both the public and private sectors, supplemented by quantitative analysis of project performance metrics. The methodology aimed to identify the benefits, challenges, and potential improvements for PPPs in Nepal, with a particular focus on governance, financial management, and risk-sharing mechanisms. By triangulating data from various sources, this study provides a robust analysis of the effectiveness and impact of PPPs in the Nepalese context.

### Results and Discussion

#### Recent Public-Private Partnership (PPP) Initiatives in Nepal

Several public-private partnership (PPP) initiatives have been carried out in Nepal in recent years, with an emphasis on infrastructure and service areas such as transportation, electricity, water supply, waste management, tourism, health, and education. Infrastructure PPPs, which include airports, highways, sewage, and waste treatment facilities, telecommunications, electric power generation, and other types of infrastructure, bring together governments and the private sector to finance, create, and run this type of infrastructure (Sansom, 2006; Grimsey and Lewis, 2007; Andres et al., 2008). More information about a few of these PPP initiatives in Nepal may be found here:

**Transportation.** The Pokhara-Baglung Road and the Kathmandu-Tarai Fast Track are two highways for which the Nepali government has launched PPP projects for the building and operation. These initiatives entail private sector investment in the building and upkeep of the roadways, with tolls being used to cover project expenses. For instance, the 76-kilometer-long, four-lane Kathmandu-Tarai Fast Track project connects Kathmandu to the southern plain of Nepal and was financed by private sector investment (Mishra, 2020 b).

**Energy.** In the energy sector, the government has also implemented PPP initiatives, including the development of hydroelectric power plants. The Kulekhani III Hydroelectric Project and the

Upper Trishuli 3A Hydroelectric Project are two notable instances. With electricity sales used to cover project expenses, these projects entail private sector investment in the building and running of the power plants. A 60 megawatt hydroelectric power project is being built by a private sector enterprise in collaboration with the government, such as the Upper Trishuli 3A Hydroelectric Project.

**Water Supply.** PPP initiatives, such as the Kathmandu Valley Water Supply Project, have been put into practice in Nepal's water supply sector. Water tariffs will be used to pay for the costs of this project, which will require private sector involvement in the development, maintenance, and operation of water delivery systems. Implemented by a private sector business in collaboration with the government, the Kathmandu Valley Water Delivery Project is a significant initiative that intends to enhance the water supply system in the Kathmandu Valley.

**Waste Management.** PPP initiatives are also in the works in the field of waste management. One such initiative is the Kathmandu Metropolitan City Solid Waste Management Project, which intends to enhance the collection, transportation, and disposal of solid waste in the Kathmandu Valley. A significant initiative being carried out by a private sector business in collaboration with the government, the Kathmandu Metropolitan City Solid Waste Management Project aims to enhance the waste management system in the Kathmandu Valley.

**Tourism.** PPP initiatives, including those that developed the infrastructure for tourism in the Annapurna region, have focused on the Nepalese tourism sector. In order to promote tourism in the region, this initiative entails private sector investment in the development and maintenance of tourism infrastructure, including hotels and hiking routes. A significant initiative to strengthen the region's tourism infrastructure is being carried out by a private enterprise in collaboration with the government. Its goal is to improve the infrastructure for tourism in the Annapurna region.

**Health.** PPP initiatives have been put into place in the health sector, including the building

and running of hospitals and clinics around the nation. In order to improve the quality of healthcare services offered to the public, these initiatives entail private sector investment in the development and management of hospitals and clinics.

**Education.** PPP initiatives have also been put into place in the field of education, including the building and running of schools and institutions around the nation. In order to improve the quality of education services available to the public, these projects entail private sector investment in the building and running of schools and colleges.

### Potential Benefits of PPP

PPPs in Nepal provide a wide range of potential benefits for the development of the nation. To illustrate the PPP prospects in Nepal in more depth, consider the following:

**Attracting Private Sector Investment.** PPPs can operate as a vehicle to encourage private sector investment in Nepal's infrastructure and service projects. This could aid in addressing the nation's huge infrastructure deficit and enhance the provision of public services. Infrastructure development is urgently needed in Nepal, particularly in the areas of transportation, energy, water supply, and waste management. The government can support these infrastructure projects by collaborating with the private sector and utilizing private sector money and expertise.

**Increasing Efficiency and Service Quality.** PPPs have the potential to increase efficiency and service quality by bringing private sector experience and resources to the delivery of public services. Infrastructure and services can be designed, built, financed, operated, and maintained by the private sector, which can result in greater performance and lower prices (Shukla et al., 2016; Mishra & Singh, 2018; Mishra et al, 2021).

**Promoting Economic Growth.** PPPs have the potential to promote economic growth by generating jobs and boosting economic activity in the development and maintenance of infrastructure and services. PPPs have the potential to boost



economic growth in a country by creating jobs during the infrastructure's construction and operating phases.

#### **Reducing the Load on the Public Sector.**

PPPs can reduce the burden on the public sector by assigning the risks and duties of building and maintaining infrastructure to the private sector. By doing so, it is possible to contribute to the timely and cost-effective completion of projects as well as the effective and efficient provision of services.

**Meeting the Needs of Disadvantaged Communities.** By giving disadvantaged people in Nepal access to infrastructure and services that they would not otherwise have, PPPs can help to meet their needs. PPPs can be utilized to promote infrastructure and service development in rural and distant areas of the nation, which can raise living standards and lower poverty.

**Supporting Rural Development.** By granting access to infrastructure and services in rural regions, PPPs can boost rural development by enhancing living conditions and reducing poverty. PPPs can be used to create services and infrastructure.

**Promoting Innovation and the Transfer of Technology.** PPPs can promote innovation and the transfer of technology by utilizing the resources and experience of the private sector in the provision of public services. New technologies can assist to improve the delivery of public services and cut costs, and the private sector has the resources and know-how to create and deploy them.

### **Challenges of PPP**

**Absence of a Legal and Regulatory Framework.** Because Nepal's legal and regulatory framework for PPPs is still being developed, it may be challenging to draw in private sector investment and successfully carry out PPP projects. Additionally, this may cause uncertainty for investors in the private sector and postpone the start of PPP projects.

**A Lack of Capability within the Government.** It's possible that Nepal's government lacks the ability to successfully

oversee and implement PPP projects. This may involve a lack of knowledge in risk management, contract management, and project finance. The implementation of PPP projects may be delayed as a result, and the projects may perform poorly.

#### **Lack of Accountability and Transparency.**

PPPs may be characterized by a lack of accountability and transparency, which may undermine public confidence in the initiatives. This can be brought on by a lack of project knowledge, a lack of public input during the decision-making process, or a lack of project oversight.

**Risk of Greater Expenses.** PPPs may result in higher costs for the public sector. The private sector typically anticipates a return on their investment, which can result in increased costs for the public sector. Additionally, this may result in a lack of affordability for the general public, particularly for the poor or disenfranchised.

**Risk of Equity.** If the advantages of the projects are not divided equally, PPPs may not lead to equity. This can happen if the public sector and the general public are left with the majority of the costs and the private sector is able to reap the benefits of the projects to a greater extent.

**Service Quality Risk.** PPPs may cause a drop in service quality if the private sector is not held responsible for it.

### **Way to Strengthen the Public-Private Partnership (PPP) Model in Nepal**

**Creating a Crystal-Clear Legal and Regulatory Framework.** The Nepali government may create a crystal-clear legal and regulatory framework for PPPs that offers assurance to investors in the private sector and makes sure PPPs are carried out in a transparent and accountable manner.

**Developing Institutional Capacity within the Government.** The Nepalese government can develop institutional capacity within its institutions to guarantee that PPPs are successfully managed and executed. This may entail giving government representatives' instruction on PPP project financing, contract management, and risk management.

**Improving Accountability and Transparency.** The government of Nepal may improve accountability and transparency in the implementation of PPPs by informing the public about PPP projects and involve them in the decision-making process (Bhagat et al, 2022).

**Promoting Private Sector Participation.** By offering financial incentives for private sector investment and by fostering a climate that is favorable to private sector investment, the government of Nepal can promote private sector participation in PPPs.

**Promoting Competition.** The Nepali government can promote competition among private sector investors by giving them the chance to submit bids for PPP projects.

**Establishing a Unit or Dedicated Agency for PPPs.** The government of Nepal can create a unit or dedicated agency for PPPs that will be in charge of managing and coordinating PPP projects, ensuring that they are carried out properly and efficiently.

**Creating a PPP Monitoring and Evaluation System.** The Nepali government can create a PPP monitoring and evaluation system to guarantee that projects are carried out according to schedule and that performance goals are reached.

**Creating PPP Procurement Rules.** The Nepali government should create PPP procurement standards to help ensure that PPP projects are procured in a fair and transparent way, which can lower the risk of corruption and favoritism.

**Encourage Local and International Investment.** By encouraging both domestic and international involvement in PPP projects, the government can broaden the pool of possible investors and draw in more foreign capital.

### Conclusion

Public-private partnerships (PPPs) in Nepal offer significant potential for advancing infrastructure and public services through collaborative efforts between the government and private sector. They promise benefits such as attracting private investment, increasing efficiency,

and promoting economic growth. However, challenges like the lack of a solid legal framework, government capacity issues, and concerns over accountability and costs need to be addressed. Strengthening the PPP model in Nepal requires creating a clear regulatory framework, enhancing institutional capacity, and improving transparency and competition. By overcoming these challenges and leveraging the strengths of PPPs, Nepal can enhance its infrastructure, boost economic development, and better serve its communities.

The article outlines the potential and challenges of Public-Private Partnerships (PPPs) in Nepal. It emphasizes that while PPPs can effectively mobilize private sector resources and expertise to address infrastructure and service deficiencies, the model's success depends heavily on the development of a clear legal framework, robust government capacity, and transparency. The Nepali government's efforts to attract private investment and improve public services through PPPs are notable, yet the model face hurdles such as legal ambiguities, insufficient government expertise, and the risk of higher costs and inequities. Strengthening the PPP model in Nepal involves creating a clear regulatory framework, enhancing government capabilities, and ensuring accountability and transparency to maximize benefits and mitigate risks.

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