

PUBLIC PROJECT PROCUREMENT CHALLENGES IN NEPAL: A COMPARATIVE STUDY BETWEEN NARAYANGHAT–BUTWAL AND MUGLING–POKHARA ROAD IMPROVEMENT PROJECTS

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ABSTRACT

Public infrastructure projects in Nepal frequently experience delays, cost overruns, contractual disputes, and implementation inefficiencies despite reforms in the public procurement system. This study examines procurement challenges through a comparative case study of the Narayanghat–Butwal (N–B) and Mugling–Pokhara (M–P) Road Improvement Projects. A mixed-method approach was employed using literature review, document analysis, questionnaire surveys, field observations, focus group discussions, and key informant interviews. Data were collected from 68 professionals and analyzed using the Relative Importance Index (RII) and thematic analysis. The study identified inadequate project readiness, excessive reliance on lowest-bid (L1) contractor selection, inappropriate risk allocation, weak institutional coordination, audit-driven administrative practices, and ineffective contract management as major procurement challenges affecting project performance. Among these, inadequate project preparedness and lowest-bid procurement practices emerged as the most critical factors contributing to delays, cost escalation, design changes, and contractual disputes. A Spearman rank correlation of $\rho = 0.84$ ($p < 0.01$) between the two projects' rankings indicates that these challenges are systemic rather than project-specific. The study concludes that procurement challenges in Nepal are systemic and interconnected, requiring comprehensive reforms across the project lifecycle. Strengthening pre-procurement preparation, adopting quality-oriented contractor selection approaches, improving risk allocation, enhancing institutional coordination, and reinforcing contract management practices are essential for improving infrastructure delivery performance.

Keywords: *Public procurement, procurement challenges, project performance, infrastructure projects.*

1. INTRODUCTION

In Nepal's infrastructure sector, most public investment is implemented through the government procurement system, making procurement performance a central factor of project delivery outcomes. Through procurement decisions, the state allocates resources, selects implementation partners, and governs project execution processes; procurement performance therefore strongly influences governance effectiveness, infrastructure outcomes, and public service efficiency [1]. The Public Procurement Act, 2007 and its associated regulations, monitored by the Public Procurement Monitoring Office (PPMO), provide the legal basis for these activities. However, despite multiple legislative updates, road and other infrastructure projects continue to struggle with time management, institutional coordination, and overall delivery, suggesting that legal amendment alone has been insufficient in fixing deep-seated operational problems [2]. Evidence from past projects indicates that procurement success depends mainly on institutional arrangement and project preparation before construction begins. Essential pre-construction activities — including land acquisition, environmental approval, utility relocation, and finalization of detailed designs — require seamless coordination between government bodies; absence of coordination between these preparatory steps and the initial

procurement strategy frequently leads to significant barriers during the construction phase [3]. A major issue in Nepal's institutional arrangement is the over-reliance on the lowest-bidder (L1) model for contractor selection; although intended to ensure transparency, this method raises growing concerns regarding the effective identification of contractors capable of handling complex infrastructure tasks [4], [5]. Road infrastructure is particularly critical in Nepal due to difficult terrain and limited transport alternatives. Among the many highway upgrading initiatives implemented under Nepal's procurement system, the Narayanghat–Butwal and Mugling–Pokhara road improvement projects were selected as case studies for this research, as they represent major strategic highway corridors with well-documented implementation histories. As illustrated in Fig. 1.1, competitive bidding on these very corridors has consistently produced bids substantially below the engineer's estimate — 27% for the ICB-1 (Nagdhunga–Naubise), 30% for ICB-2 (Naubise–Malekhu), and 32% for ICB-3 (Malekhu–Mugling) packages — illustrating the low-bid-dominant character of Nepal's current procurement environment.

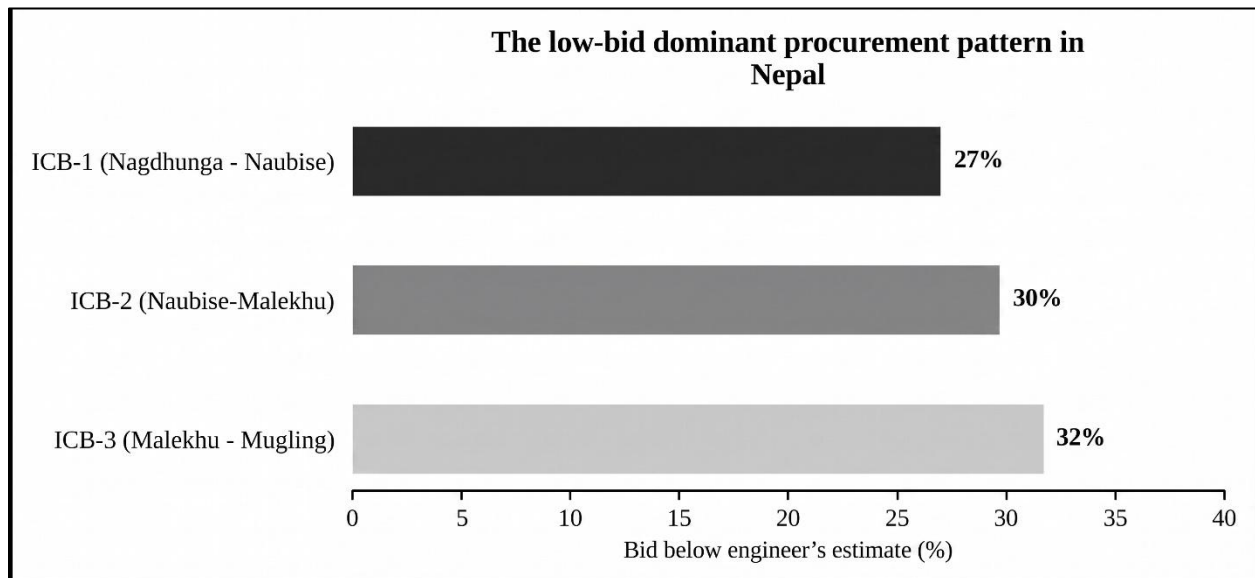


Fig. 1.1. The low-bid dominant procurement pattern in Nepal

Even though procurement laws have been updated several times, the changes have been slow and non-comprehensive, with continued absence of focus on value-for-money, proper risk management, and coordination during project preparation. A primary concern is the inadequacy of project maturity at the time procurement begins: bidding is often initiated before critical groundwork — land rights, utility clearance, and detailed engineering designs — is finalized, introducing uncertainty during construction and reducing the effective use of public funding [6], [7]. While several legal updates have focused on strengthening procedural compliance, transparency, and regulatory oversight, procurement success continues to be assessed largely on adherence to prescribed procedures rather than the achievement of project outcomes, encouraging officials to prioritize legal defensibility and audit compliance over value optimization, innovation, and quality [6]. Existing literature on Nepal's procurement system mainly focuses on legal and institutional aspects, with fewer empirical studies examining how procurement practices operate within real infrastructure projects. This study addresses that gap through a comparative case study of the Narayanghat–Butwal and Mugling–Pokhara road improvement projects, with the objectives of: (a) identifying procurement-related challenges encountered during implementation of the two case projects; (b) assessing the procurement planning, bidding practices, and contract management approaches adopted; (c) examining the relationship between procurement practices and project time, cost, and performance outcomes; and (d) proposing practical improvement strategies for strengthening Nepal's construction procurement system.

2. MATERIALS AND METHODS

2.1 Research Design

The research applies a comparative case study strategy combining qualitative investigation with quantitative analysis to evaluate procurement performance. The comparative case approach was adopted because both the Narayanghat–Butwal and Mugling–Pokhara highway improvement projects share similar contractual structures and contract scope, enabling in-depth understanding of how procurement-related factors — planning quality, contractor selection practices, and institutional coordination — translate into actual project performance, while also allowing identification of common systemic challenges and context-specific implementation differences.

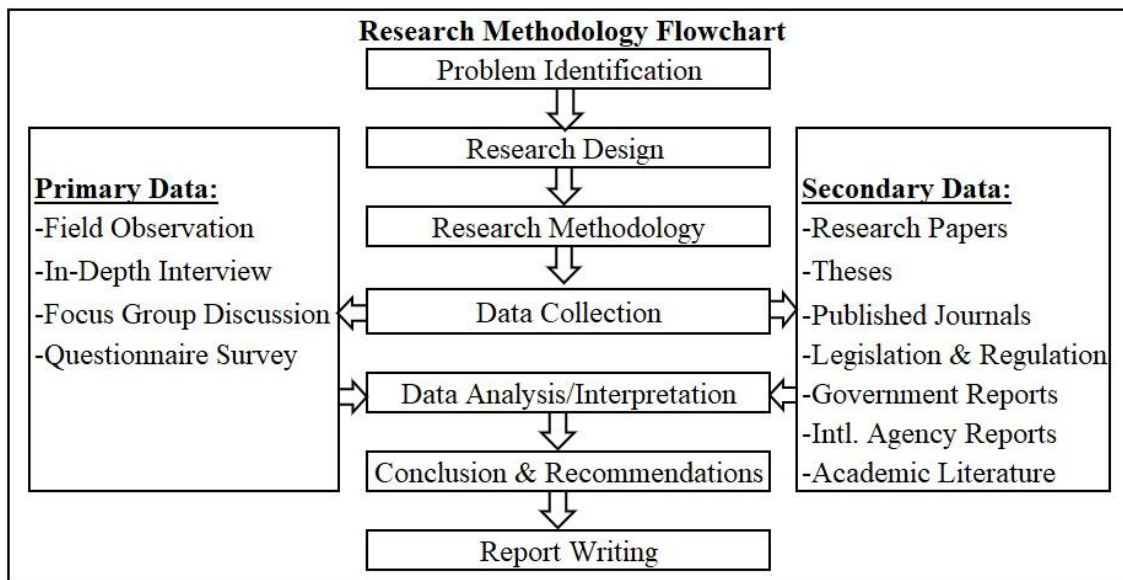


Fig. 2.1. Research methodology flowchart

2.2 Study Area and Case Projects

Two projects were selected as Nepal's most critical strategic highways: the Narayanghat–Butwal and Mugling–Pokhara road improvement projects. The Narayanghat–Butwal project forms an important section of Nepal's east–west (Mahendra) highway, executed by the Department of Roads with ADB loan assistance (Loan No. 3478–NEP); the alignment extends approximately 114 km, connecting Gaidakot in Nawalpur District to Butwal in Nawalparasi District, linking the western and central regions of Nepal and supporting inter-provincial mobility and cross-border trade with India. The Mugling–Pokhara project similarly upgrades a strategically important corridor connecting central Nepal with the western tourism hub of Pokhara. The location of both study corridors is shown in Fig. 2.2.

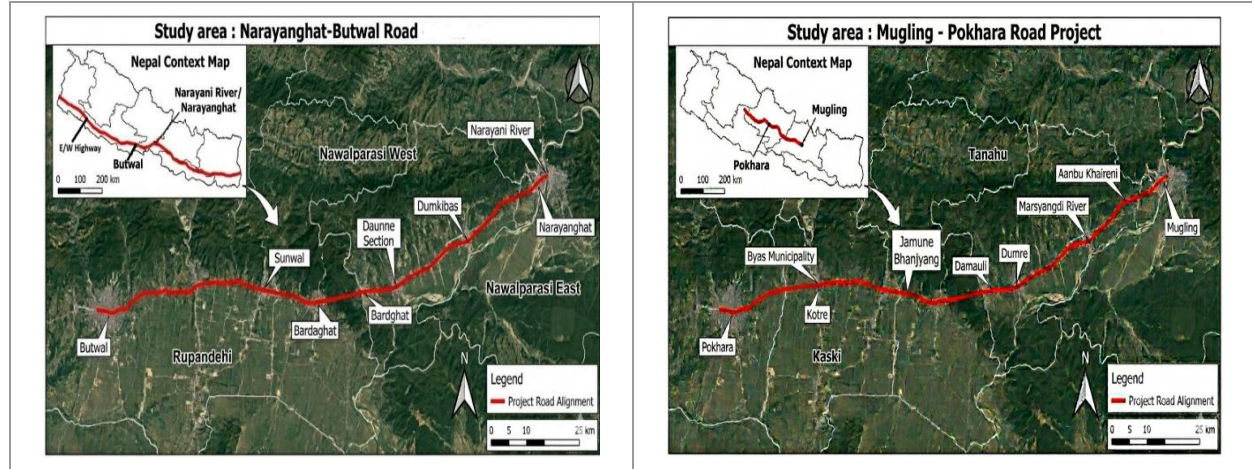


Fig. 2.2. Location map of the study area (Source: synthesized from Google Map)

2.3 Population and Sampling

The target population consisted of professionals directly involved in procurement and project implementation activities of the case projects, including government engineers, project officials, consultants, contractor representatives, supervision engineers, and other technical personnel engaged in planning, bidding, contract administration, supervision, and construction execution. A purposive sampling method was adopted to include respondents with direct knowledge and practical experience of procurement and project execution.

Because staff engaged in these large infrastructure projects change frequently due to transfers, contractor mobilization, and phased construction progress, the accessible population was considered practically infinite for sampling purposes. The required sample size was determined using Cochran's formula for an infinite population at a 90% confidence level, considered appropriate given the study's reliance on expert judgment:

$$n_0 = (Z^2 \times p \times q) / e^2 \quad \text{Equation (1)}$$

where $Z = 1.645$ (90% confidence level), $p = 0.5$ (maximum variability), $q = 1 - p = 0.5$, and $e = 0.10$ (acceptable margin of error), giving $n_0 = (1.645^2 \times 0.5 \times 0.5) / (0.10^2) = 67.65 \approx 68$. A common questionnaire was distributed among professionals from both projects; demographic characteristics were analyzed collectively, while RII analysis was performed separately for each project to enable comparative assessment.

2.4 Data Analysis

Quantitative survey responses were analyzed using the Relative Importance Index (RII) method to rank procurement challenges according to perceived importance:

$$RII = \Sigma W / (A \times N) \quad \text{Equation (2)}$$

where $W = (1 \times n_1) + (2 \times n_2) + (3 \times n_3) + (4 \times n_4) + (5 \times n_5)$ is the weight assigned to each statement, n_1 – n_5 are the numbers of respondents selecting ratings 1–5, $A = 5$ is the highest possible weight, and N is the total number of respondents. RII values were computed separately for the N–B and M–P projects to allow comparison under similar institutional conditions.

To evaluate the level of agreement between the two projects' rankings, Spearman's rank correlation coefficient was computed as:

$$\rho = 1 - [6 \times \Sigma d^2 / (n(n^2 - 1))] \quad \text{Equation (3)}$$

where d is the difference between paired ranks and n is the number of indicators compared. Qualitative information obtained from key informant interviews, focus group discussions, field observations, and document review was analyzed using thematic analysis, with findings triangulated across sources to enhance analytical credibility.

3. RESULTS AND DISCUSSION

3.1 Respondent Profile

A total of 68 valid responses were received from professionals associated with the two case projects. As shown in Fig. 3.1, 56% of respondents were from the Narayanghat–Butwal project and 44% from the Mugling–Pokhara project. By organization type, consultants and contractors each accounted for 35% of respondents, with the remainder from government agencies and other organizations. By designation engineers formed the majority (50%), followed by other roles (20%), project managers/resident engineers (18%), and senior management (12%). By professional discipline 54% of respondents were engaged in site supervision, 18% in planning and scheduling, 17% in contract management, and 11% in procurement management. By years of experience, 32% had 10–15 years and 30% had 5–10 years of experience, with the remainder split between more senior (20%, >15 years) and more junior (18%, 0–5 years) professionals. By academic qualification, the majority held a Bachelor's degree (59%), followed by a Master's degree (39%) and PhD (2%).

3.2 Project Overview and Performance Status

Both case projects illustrate the practical consequences of the procurement challenges examined in this study. The Narayanghat–Butwal project, originally scheduled for completion in August 2022, has undergone four time extensions and remains at 77–80% physical progress and 70–75% financial progress as of the latest reporting period, with difficult terrain in the 14 km Daunne hill section, riverbed material extraction restrictions, and utility relocation delays cited as major on-ground constraints. The Mugling–Pokhara project has experienced a broadly similar pattern of delay, with land compensation disputes, urban widening design revisions, and high-voltage transmission line relocation identified as principal bottlenecks. In both cases, cost variations have remained comparatively controlled in nominal terms, but scope changes and prolonged implementation periods have added significant execution complexity and indirect cost escalation through rising labor, fuel, and material prices.

3.3 Major Procurement Problems

RII analysis of the major procurement problems shows a consistent pattern across both projects, with values ranging from 0.69 to 0.85, indicating moderate to high significance. Lowest-Price (L1) selection recorded the highest RII in both projects (0.85 in N–B and 0.81 in M–P), followed by inadequate project readiness (0.82 and 0.79). Other significant problems include inappropriate risk allocation (0.78 and 0.75), audit-adverse administrative culture (0.78 and 0.74), weak institutional coordination (0.76 and 0.77), and inefficient contract management, which recorded comparatively lower but still relevant RII values (0.73 and 0.69), as shown in Fig. 3.7.

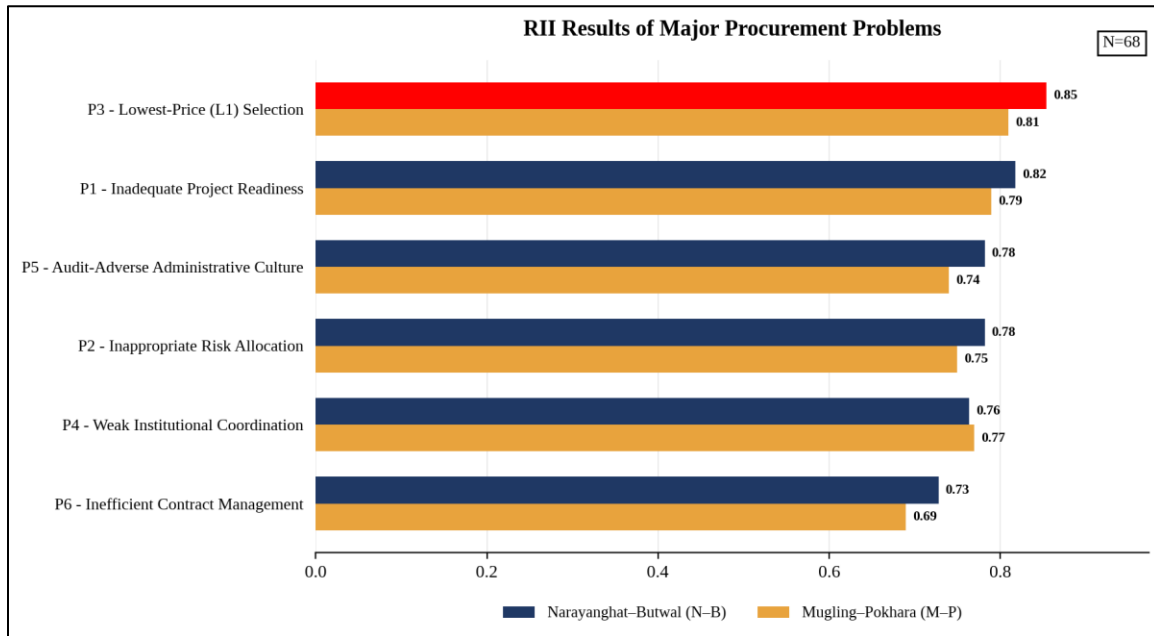


Fig. 3.1 RII Results of Major Procurement Problems

3.4 Causes of Procurement Problems

P1 – Inadequate project readiness: the dominant cause is complex and slow utility relocation processes (RII = 0.95 in N-B, 0.83 in M-P), followed by tendering before full site readiness, incomplete or inaccurate designs, and pressure for premature contract awards.

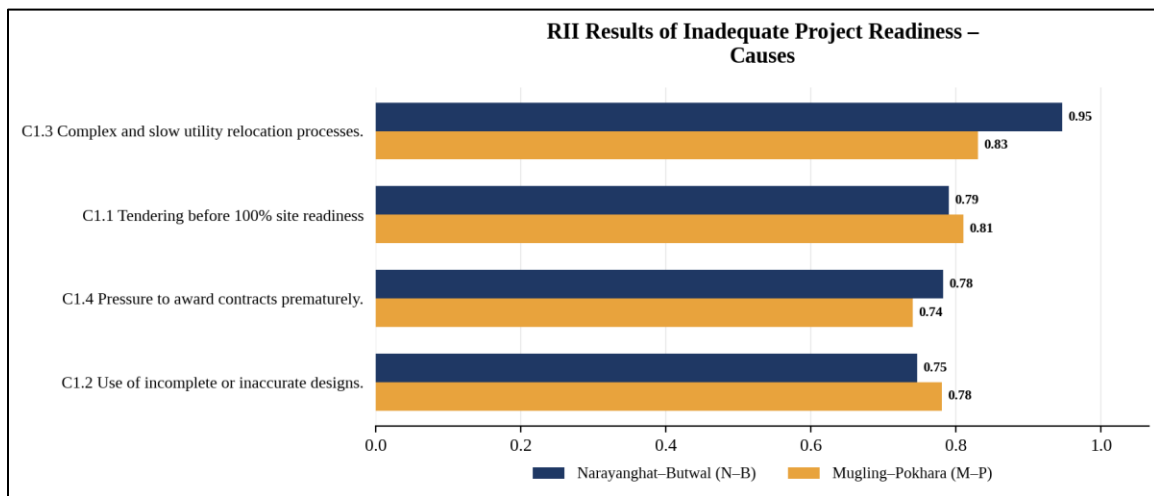


Fig. 3.2 RII Results of Inadequate Project Readiness – Causes

P2 – Inappropriate risk allocation: the most significant cause is the mismatch between international contract practices and national procurement regulations (0.85 and 0.80), followed by unfair shifting of site risks to contractors, limited risk-sharing expertise, and client limitations in managing design-related risks.

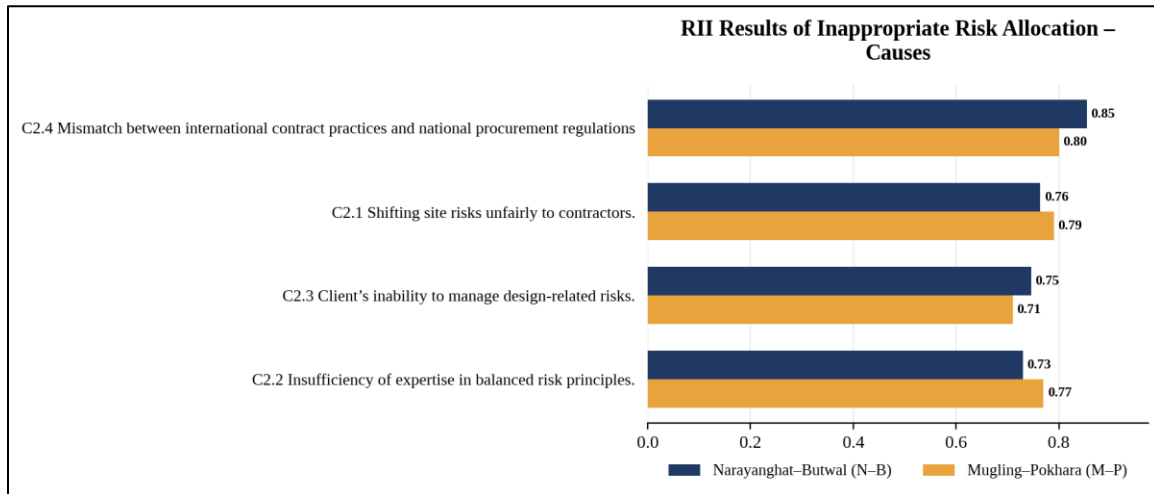


Fig. 3.3. RII Results of Inappropriate Risk Allocation – Causes

P3 – Lowest-price (L1) selection: the dominant cause is the legal framework's prioritization of lowest-bid selection (0.89 and 0.85), followed by unrealistically low bidding by contractors, discouragement of QCBS methods, and limited consideration of contractor past performance.

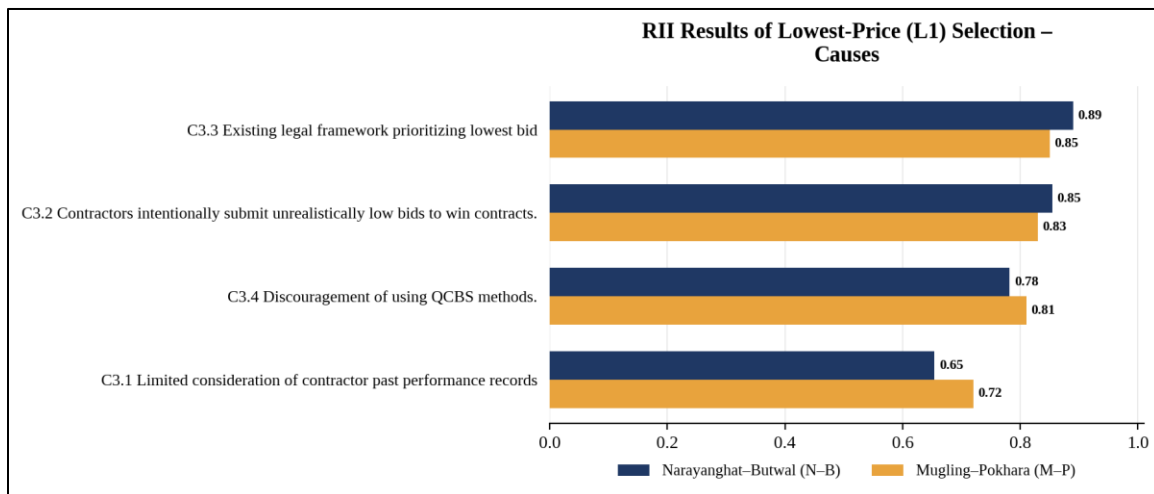


Fig. 3.4. RII Results of Lowest-Price (L1) Selection – Causes

P4 – Weak institutional coordination: the most critical cause is the absence of a single-window approval system (0.87 and 0.84), followed by frequent transfer of key project personnel, fragmented inter-agency accountability, and weak communication between central and field units.

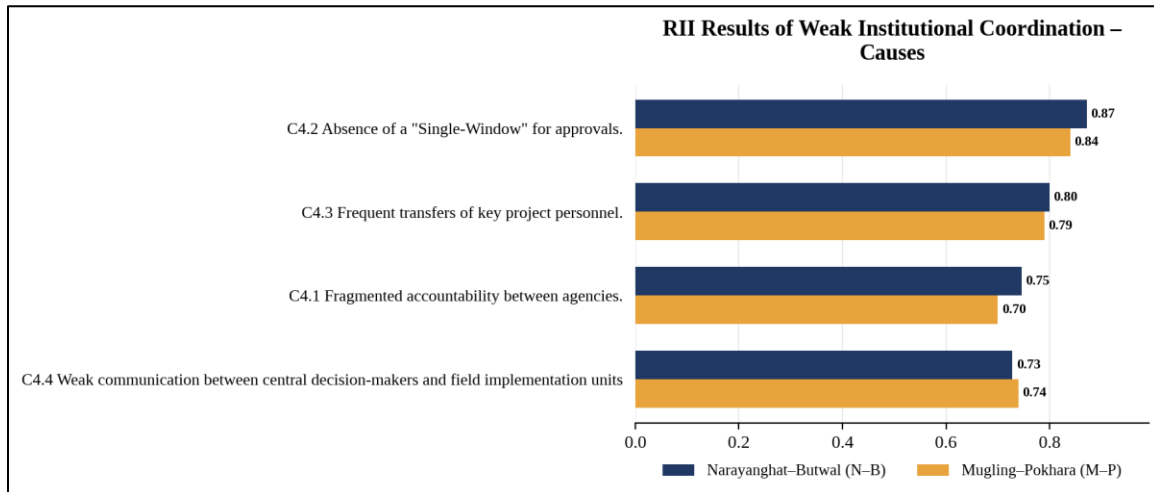


Fig. 3.5. RII Results of Weak Institutional Coordination – Causes

P5 – Audit-adverse administrative culture: the highest-ranked cause is the absence of protection for good-faith decisions (0.87 and 0.82), followed closely by L1 selection being viewed as the safest procedural option, prioritization of rules over performance, and fear created by multiple oversight agencies.

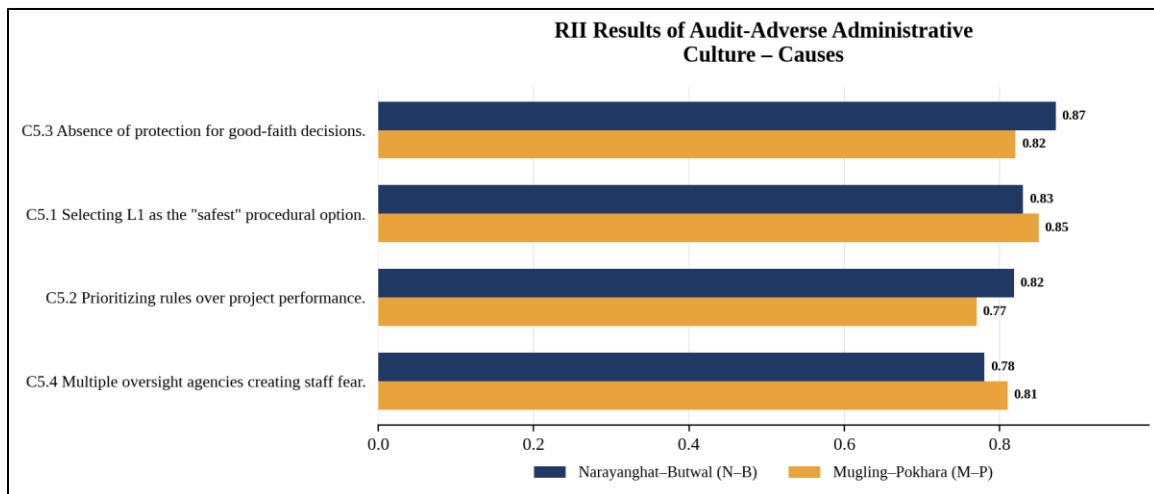


Fig. 3.6. RII Results of Audit-Adverse Administrative Culture – Causes

P6 – Inefficient contract management: the most influential cause is rigid rules limiting project manager flexibility (0.84 and 0.80), followed by delays in variation-order approval, absence of specialized legal units, and absence of dispute-avoidance mechanisms (DAAB).

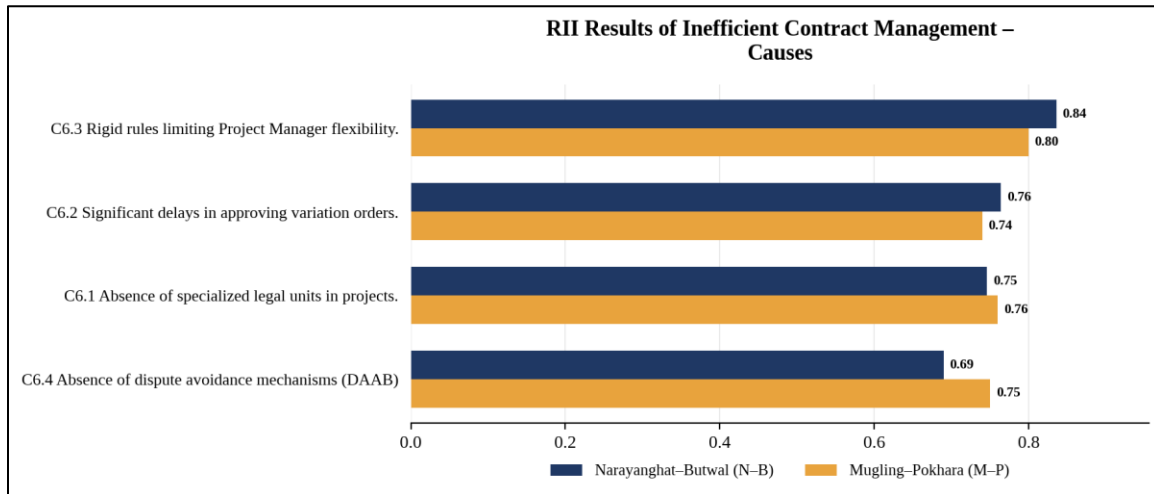


Fig. 3.7. RII Results of Inefficient Contract Management – Causes

3.5 Effects of Procurement Problems

P1 – Inadequate project readiness mainly leads to increased idle resource costs (0.84 and 0.82), followed by prolonged mobilization and site-entry delays, community dissatisfaction due to stalled work, and frequent design changes during construction.

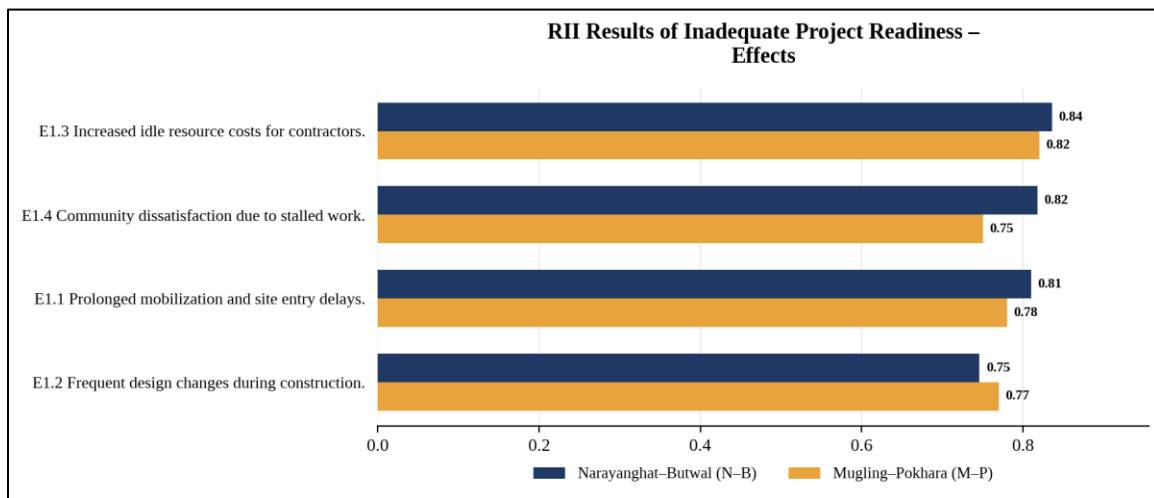


Fig. 3.8. RII Results of Inadequate Project Readiness – Effects

P2 – Inappropriate risk allocation most significantly causes contractor financial stress (0.87 and 0.85), followed by rising contractual disputes and legal claims, increased insurance costs, and declining trust between client and contractor.

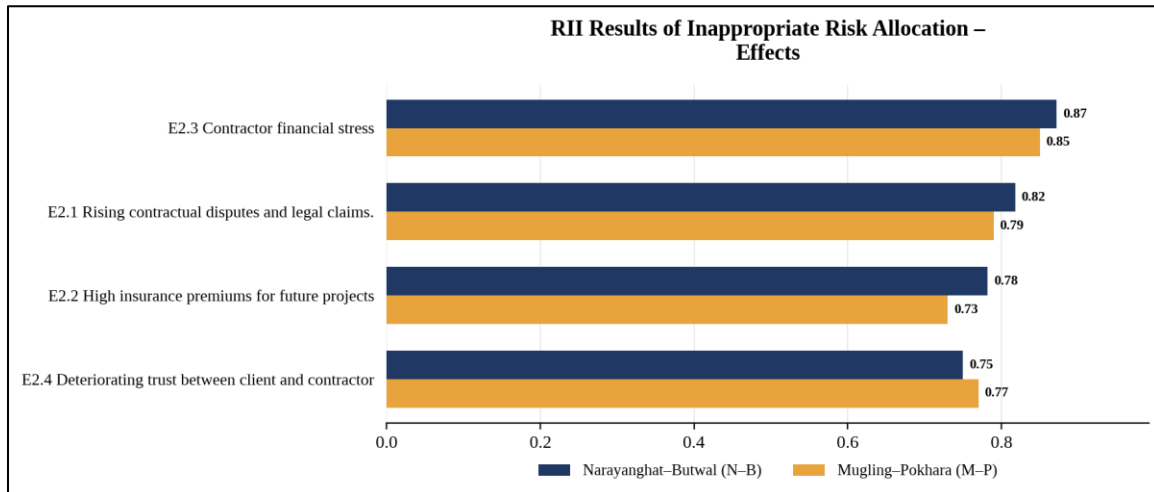


Fig. 3.9. RII Results of Inappropriate Risk Allocation – Effects

P3 – Lowest-price (L1) selection most seriously raises the risk of contract termination (0.85 and 0.83), followed by frequent price-escalation claims, reduced focus on technical safety standards, and compromised quality of construction work.

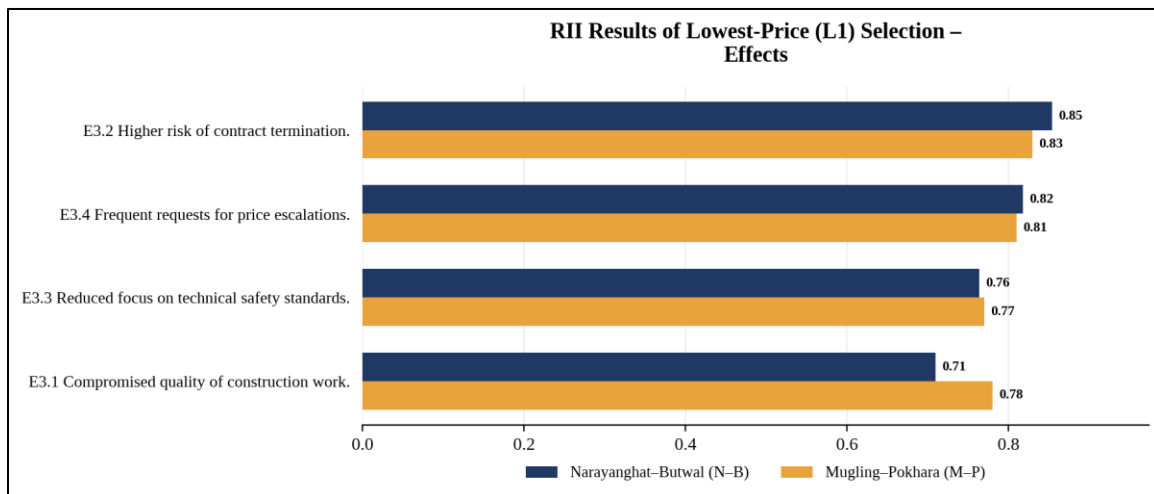


Fig. 3.10. RII Results of Lowest-Price (L1) Selection – Effects

P4 – Weak institutional coordination most prominently causes repeated project time extensions (0.89 and 0.87), followed by stagnant progress in utility and forest-clearance areas, conflicting instructions from agencies, and loss of public confidence.

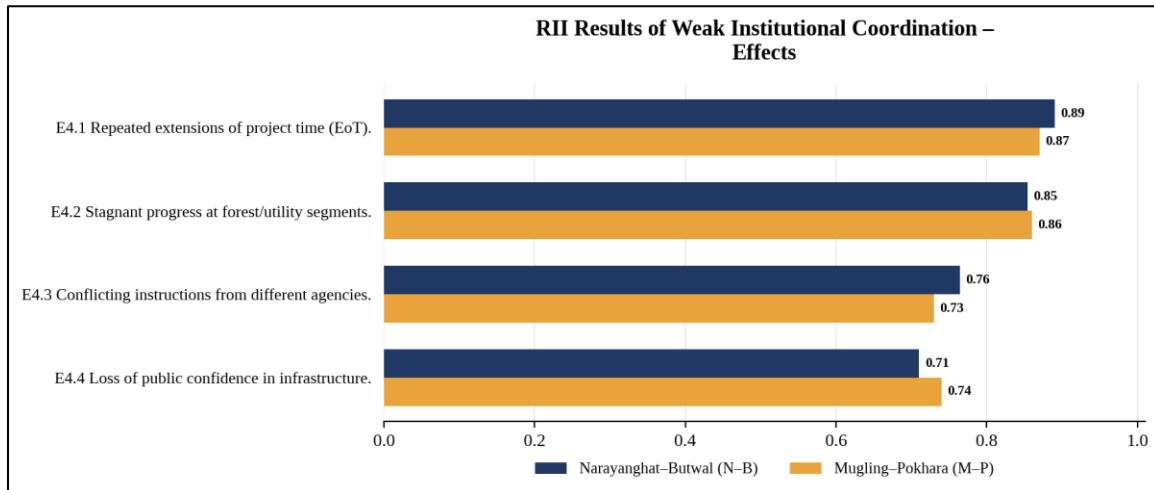


Fig. 3.11. RII Results of Weak Institutional Coordination – Effects

P5 – Audit-adverse administrative culture leads most strongly to slow and hesitant decision-making (0.91 and 0.85), followed by avoidance of innovative solutions, excessive focus on paperwork over site progress, and accumulation of unresolved field problems.

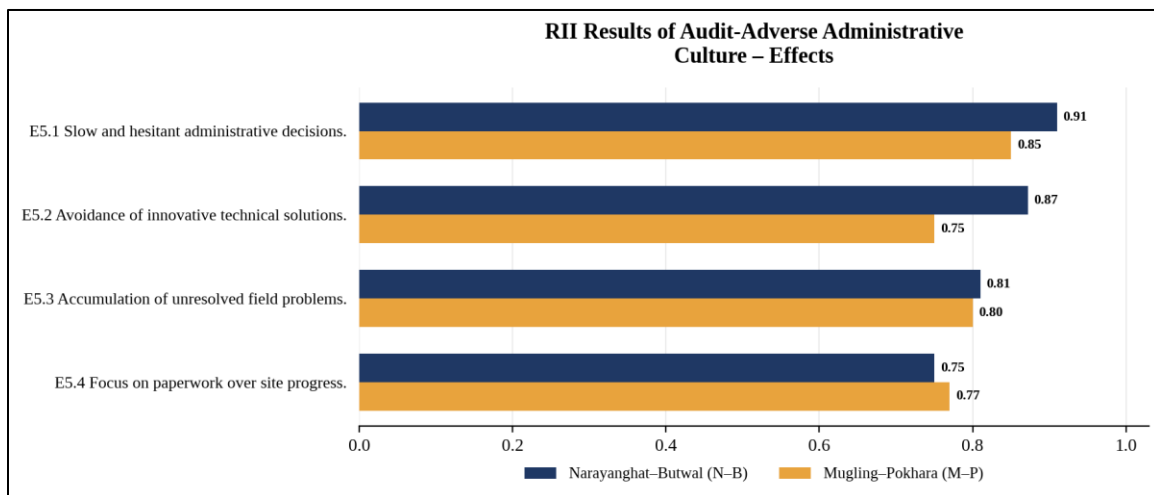


Fig. 3.12. RII Results of Audit-Adverse Administrative Culture – Effects

P6 – Inefficient contract management most significantly causes underutilization of the annual capital budget (0.93 and 0.85), reflecting poor financial absorption capacity, followed by the emergence of stalled (“sick”) projects, cost overruns from variations, and long-term high maintenance requirements.

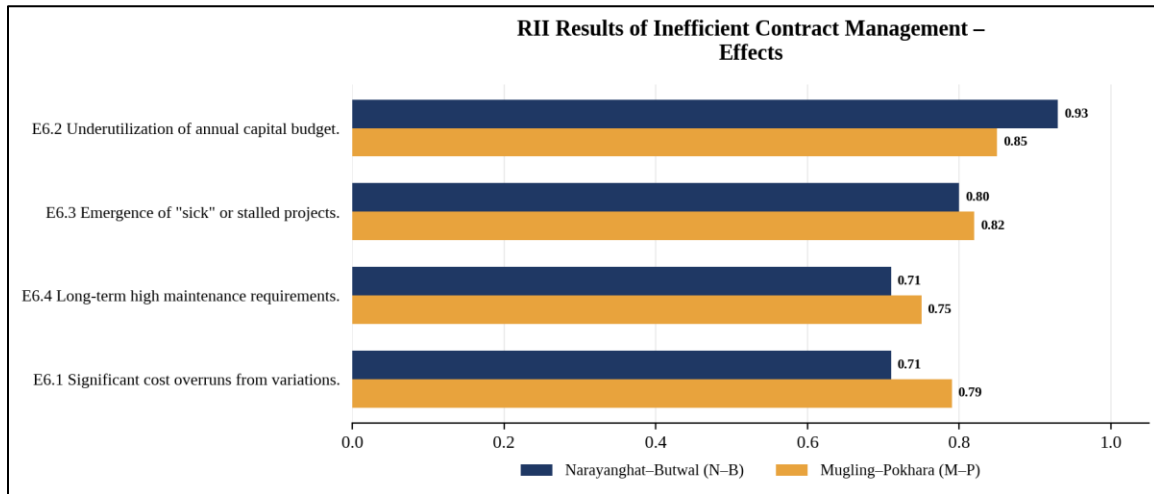


Fig. 3.13. RII Results of Inefficient Contract Management – Effects

3.6 Proposed Mitigation Measures

The highest-ranked mitigation measure is mandatory adoption of quality- and cost-based selection (QCBS) for national priority projects (RII = 0.93 in N-B, 0.91 in M-P), reflecting a clear perception that moving beyond the traditional lowest-price system is essential to improve contractor capability and construction quality. This is followed by legal protection for good-faith administrative decisions (0.91 and 0.83), establishment of a single-window mechanism for inter-agency clearance (0.89 and 0.81), performance-based incentives for early completion (0.89 and 0.85), and ensuring full site readiness before tendering (0.85 and 0.87), as shown in Fig. 3.20.

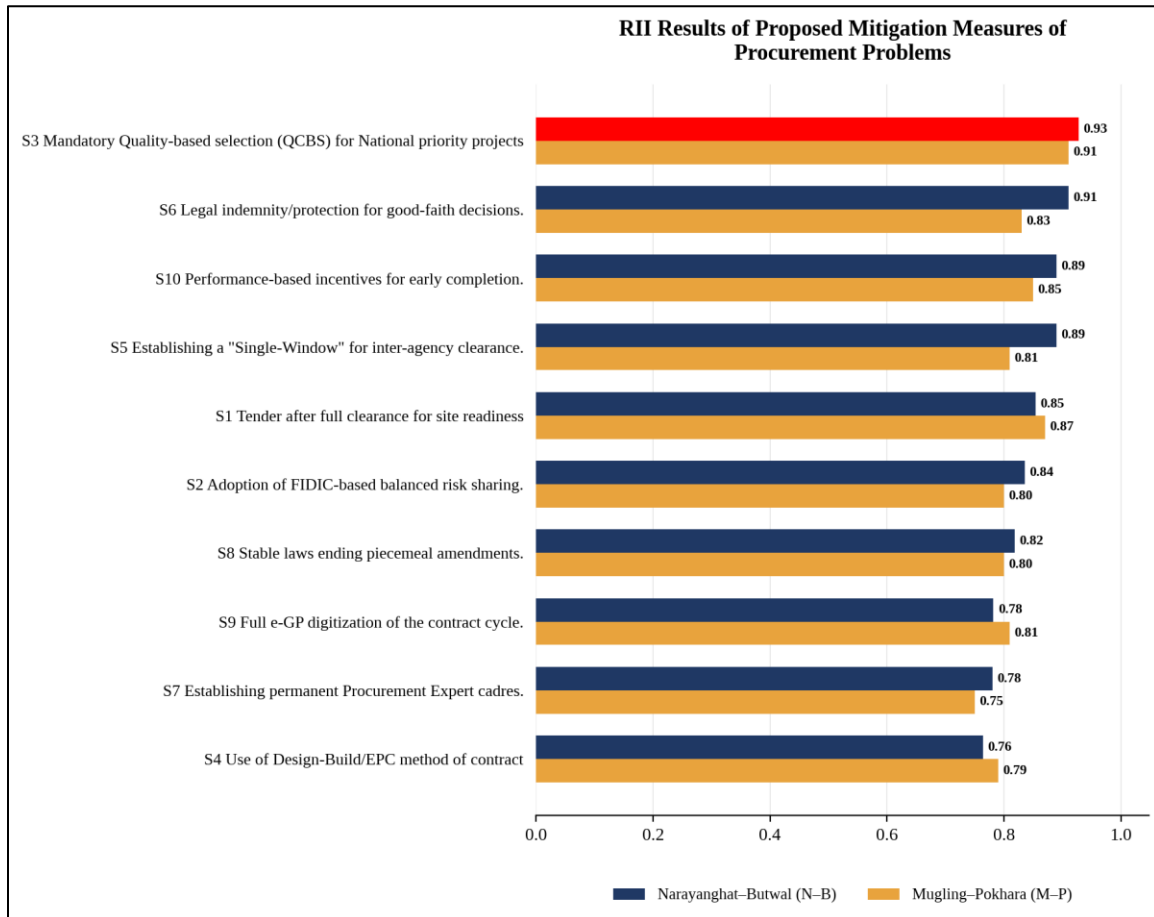


Fig. 3.14. RII Results of Proposed Mitigation Measures of Procurement Problems

3.7 Comparative RII and Spearman Rank Correlation

The RII values of major procurement problems and proposed mitigation measures were compared between the N-B and M-P projects, and the level of agreement in their ranking patterns was evaluated using Spearman's rank correlation coefficient, based on the pooled rankings of six major procurement problems and ten proposed mitigation measures ($n = 16$), summarized in Table 1.

Table 1. Comparative RII of major procurement performance indicators and their ranking

S.N.	Procurement indicator	RII (N– B)	Rank	RII (M– P)	Rank	d	d ²
1	P1 - Inadequate project readiness	0.82	8.5	0.79	11.5	- 3.0	9.00
2	P2 - Inappropriate risk allocation	0.78	11.5	0.75	14.5	- 3.0	9.00
3	P3 - Lowest-price (L1) selection	0.85	5.5	0.81	7.0	- 1.5	2.25
4	P4 - Weak institutional coordination	0.76	14.5	0.77	13.0	1.5	2.25
5	P5 - Audit-adverse administrative culture	0.78	11.5	0.74	15.0	- 3.5	12.25
6	P6 - Inefficient contract management	0.73	16.0	0.69	16.0	0.0	0.00
7	S1 Tender after full clearance for site readiness	0.85	5.5	0.87	2.5	3.0	9.00
8	S2 Adoption of FIDIC-based balanced risk sharing	0.84	7.0	0.80	9.5	- 2.5	6.25
9	S3 Mandatory QCBS for national priority projects	0.93	1.0	0.91	1.0	0.0	0.00
10	S4 Use of Design-Build/EPC method of contract	0.76	14.5	0.79	11.5	3.0	9.00
11	S5 Establishing a “single-window” for inter-agency clearance	0.89	3.5	0.81	7.0	- 3.5	12.25
12	S6 Legal indemnity/protection for good-faith decisions	0.91	2.0	0.83	5.0	- 3.0	9.00
13	S7 Establishing permanent procurement expert cadres	0.78	11.5	0.75	14.5	- 3.0	9.00
14	S8 Stable laws ending piecemeal amendments	0.82	8.5	0.80	9.5	- 1.0	1.00
15	S9 Full e-GP digitization of the contract cycle	0.78	11.5	0.81	7.0	4.5	20.25
16	S10 Performance-based incentives for early completion	0.89	3.5	0.85	4.0	- 0.5	0.25

Substituting $\Sigma d^2 = 110.75$ and $n = 16$ into the Spearman formula gives $\rho = 1 - [6 \times 110.75 / (16(16^2 - 1))] = 0.84$. Because the calculated $\rho = 0.84$ exceeds the critical value of 0.647 at the 1% significance level for $n = 16$, the agreement between the two projects' rankings is statistically highly significant ($p < 0.01$). This high degree of agreement indicates that the observed procurement challenges are not project-specific issues but are largely driven by broader systemic factors — legal frameworks, institutional arrangements, and operational practices — governing public procurement in Nepal, implying that improving procurement performance requires system-wide reforms rather than isolated project-level interventions.

3.8 Discussion

Field observations along both corridors reinforced the quantitative findings. Along the Narayanghat–Butwal alignment, construction progress was uneven, with the Daunne hill section — characterized by steep terrain, frequent landslides, and limited working space — emerging as the most challenging stretch despite adequate contractor mobilization; these realities correspond closely with the RII findings on inadequate project readiness (0.82) and utility relocation delay as the leading readiness-related cause (0.95). Along the Mugling–Pokhara corridor, the eastern section showed comparatively smoother progress while the western section was slowed by local obstructions and land compensation issues, with a major bottleneck near Pokhara caused by high-voltage transmission-line relocation — consistent with the RII-ranked significance of utility relocation delay (0.83) and weak institutional coordination (0.77) in that project.

Focus group discussions and key informant interviews with engineers, contractors, and supervision teams on both projects identified staged delay patterns: early disruption from the COVID-19 pandemic, followed by delayed forest clearance and utility relocation, material supply obstruction, and continuous traffic management along operating highways. Participants consistently linked these operational difficulties to procurement weaknesses — particularly early contract award and reliance on lowest-price bidding, which created financial pressure on contractors — and agreed that stronger pre-construction readiness and improved inter-agency coordination are necessary for smoother project delivery.

These findings are consistent with the broader literature on public procurement performance. The dominance of inadequate project readiness as a driver of delay is consistent with evidence that weak pre-construction planning and poor coordination among government bodies frequently disrupt infrastructure delivery [3]. The persistence of lowest-bid contractor selection despite its documented shortcomings mirrors well-established critiques of price-only selection methods in public infrastructure procurement [10], [11]. Similarly, the identification of legal protection for good-faith decisions and single-window inter-agency clearance as leading mitigation measures aligns with evidence that risk-averse, audit-driven administrative cultures materially slow decision-making and reduce absorption of allocated development budgets [5], [6].

The strong Spearman correlation ($\rho = 0.84$) between the two projects' rankings, together with the qualitative triangulation across field observation, focus group discussion, and key informant interview data, supports the conclusion that Nepal's procurement challenges are systemic rather than confined to any single project, consistent with the behavioral and institutional patterns documented in international project management and partnering literature [12], [13], [14].

4. CONCLUSIONS

This study has examined the public procurement framework governing construction projects in Nepal and assessed its application in the Narayanghat–Butwal and Mugling–Pokhara road improvement projects. The findings indicate that although the existing procurement system is strongly guided by transparency and competition, it remains less effective in ensuring project readiness, efficiency, and performance outcomes due to weak coordination, limited institutional capacity, and implementation gaps. Procurement challenges in both projects were found to be largely similar, indicating systemic rather than project-specific issues, including delays in design finalization, environmental clearance, land acquisition, and utility relocation, alongside weak inter-agency coordination, slow decision-making, inadequate technical capacity, and weak contract administration.

Procurement planning was found to be insufficiently aligned with project readiness, leading to premature contract awards, and the continued reliance on the lowest evaluated bidder (L1) method was found unsuitable for complex infrastructure projects requiring technical competence and risk-sensitive procurement. Although the e-GP system has improved transparency, its use remains largely procedural rather than performance-oriented, and weak contract management further contributed to variations, claims, and implementation delays. The Spearman correlation result ($\rho = 0.84$) confirms a strong similarity in procurement priorities across both projects, showing that these challenges are driven by broader institutional, legal, and operational factors rather than project-specific conditions.

The study concludes that improving procurement performance in Nepal requires systemic reforms focused on strengthening project readiness, adopting quality-based procurement approaches such as QCBS, improving inter-agency coordination through single-window mechanisms, enhancing contract management capacity, fully utilizing e-GP systems, and developing a professional procurement workforce — shifting the system from compliance-based to performance-oriented outcomes across Nepal's public infrastructure sector.

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