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Ministry of Physical Infrastructure and Transport



Confederation of
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**NEPAL
INFRASTRUCTURE
SUMMIT 2024**

Driving Sustainable Development
through Strategic Investment

Built and Trust with



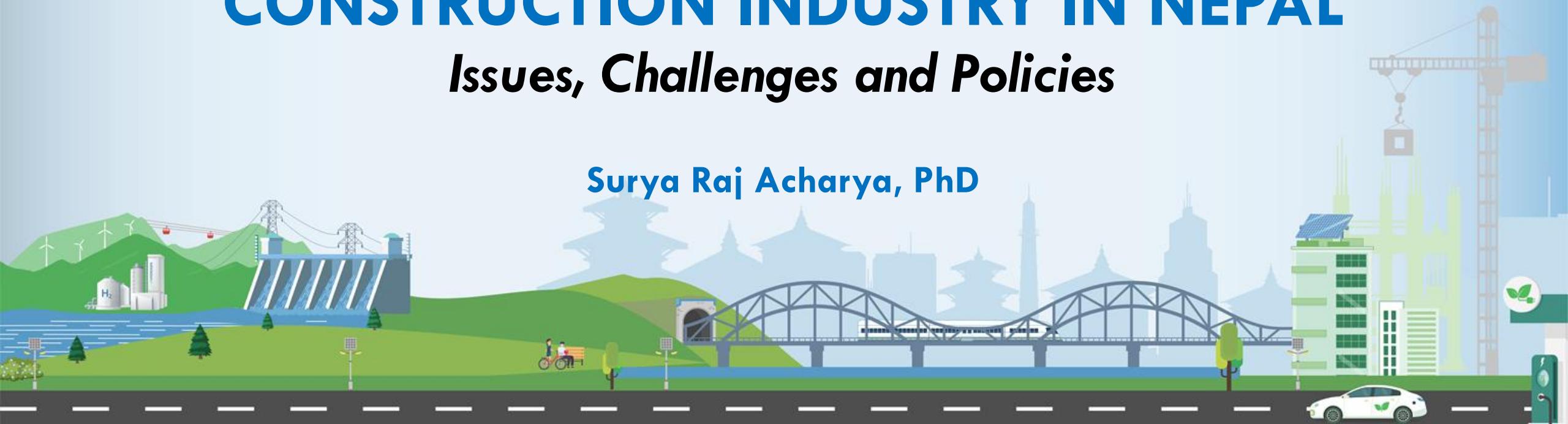
12 – 13 September 2024

The Soaltee Kathmandu

CONSTRUCTION INDUSTRY IN NEPAL

Issues, Challenges and Policies

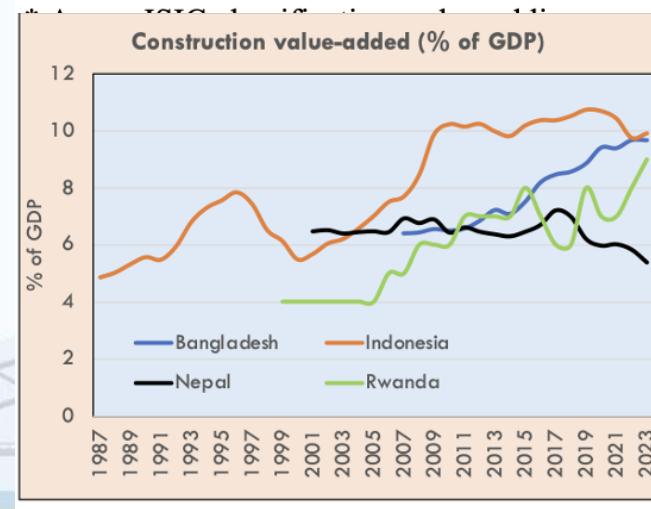
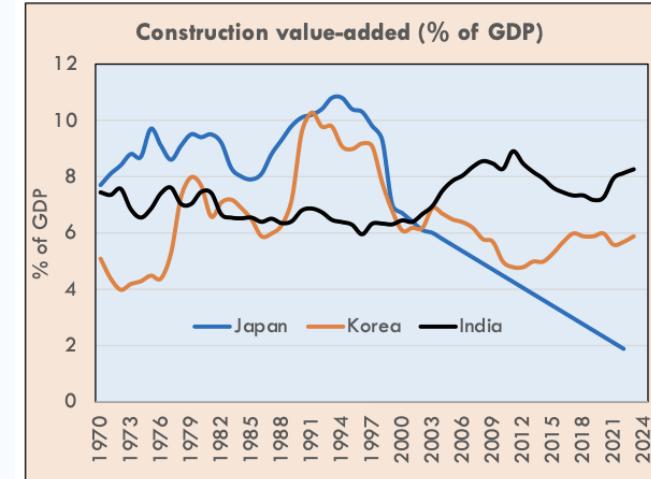
Surya Raj Acharya, PhD





Role of Construction Industry In Developing Countries

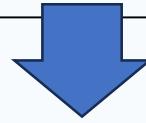
- 6 to 12 % value-adding contribution to GDP [ISIC Section F]
- 40 to 70 % share in gross fixed capital formation [gross output of construction]
- Potential for service export
- Extended definition of Construction Industry covering backward linked components
 - Engineering consulting services
 - Contractors
 - Material producers & processors
 - Education, training and research



Infrastructure Development in Nepal

Issues

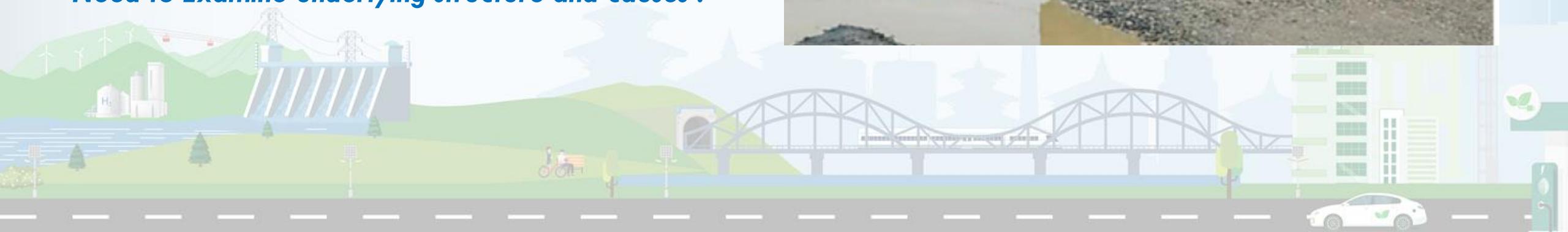
- Cost and time over-run
- Poor quality of works
- Contractual disputes



Contractors? Consultants? Government Agencies?

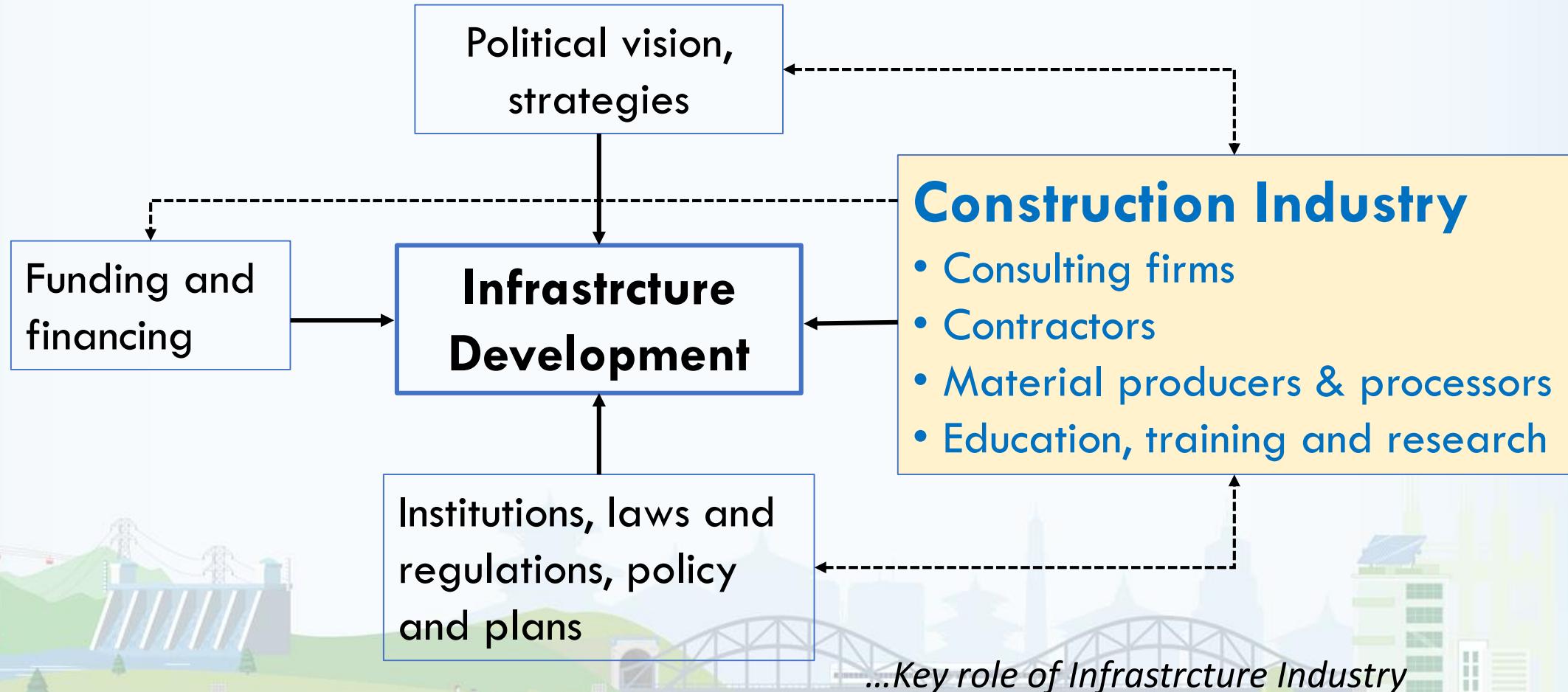


Need to Examine underlying structure and causes !





Process of Infrastructure Development





Importance of Domestic Capacity of Construction Industry

Well-developed [domestic] construction industry:

- Creates a pool of skilled professionals and experienced firms to undertake complex and large projects.
- Maximizing domestic inputs leads to higher multiplier effects from infrastructure investment.
- Domestic capacity provides crucial leverage for the public sector to plan, fund, and manage infrastructure projects.
- Helps avoid potentially higher transaction costs associated with foreign firms.



Lack of Strategic Direction to Promote Construction Industry in Nepal

- Weak capacity of the construction industry in Nepal is evident in the range of issues and problems in infrastructure projects.
- Government strategy and policy are indifferent towards promoting the domestic capacity of the construction industry.
- The existing policy framework lacks an incentive structure and is more control-oriented, leading to counterproductive outcomes.
- Donor driven approach or guidelines in donor-financed projects focused just on narrow project execution objectives.



Promoting Construction Industry International Experience

- Many countries supported the construction industry as an 'infant industry' during early development stages.
- Statutory bodies like the Construction Industry Promotion Council or Board were established for policy formulation and regulation.
- Specific policies aimed at building capacity in technical manpower, firms (contractor, consulting), and suppliers.
- Emphasis on technology transfer and learning-by-doing strategies.



Technology Transfer and Learning-by-doing

Examples (1/2)

Japan: First Railway Line (1869-72)

- Borrowing from Britain @12 % interest
- 100 % British inputs (Engineers, technicians and materials)
- Concrete plan for technology transfer
- By 1880, 100 % civil works domestically
- By 1890, train locomotive too produced domestically



Technology Transfer and Learning-by-doing Examples (2/2)

Korea: Seoul-Busan Expressway

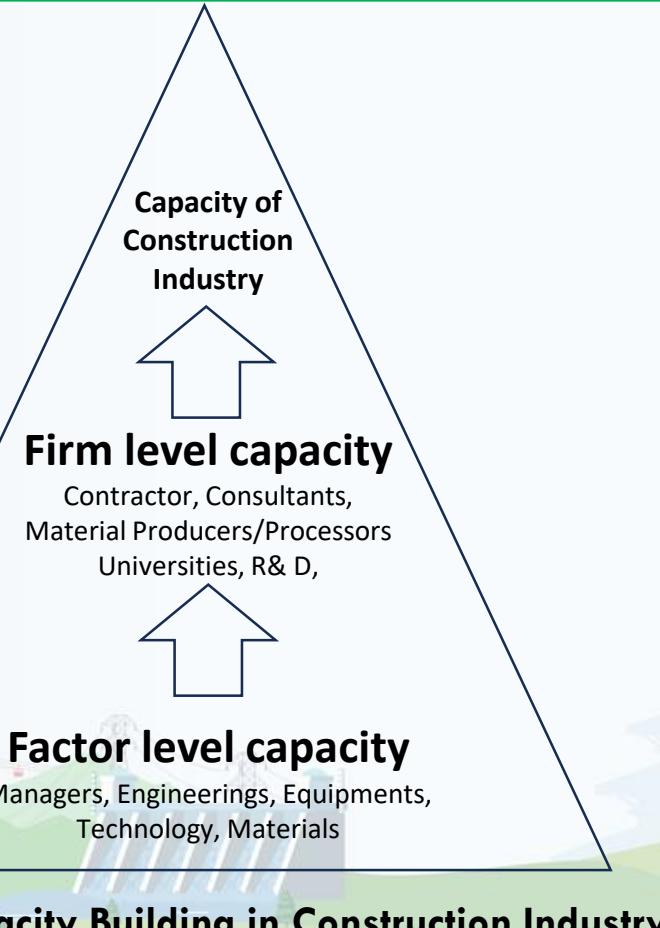
- Seoul-Busan Expressway (428 km) was planned in the late 1960s.
- The World Bank's conditions: a scaled-down design and the use of foreign firms.
- The Korean government declined these conditions, and the World Bank was not involved.
- The project was completed in 29 months by local firms at a much lower cost compared to international rate.
- This had a significant impact on the development of the Korean domestic construction industry.
- In the 1970s, Korean construction firms secured contracts in Gulf countries through government agreements.





Developing Capacity of Construction Industry

Recommendation for Nepal



- Acknowledge the broad definition of the Construction Industry at the policy level.
- Revitalize inactive statutory bodies, such as:
 - Construction Business Development Council (CBDC)
 - Construction Business Development Implementation Committee (CBDIC)
- Implement policy measures (including incentive structures) to enhance the capacity of key factors, firms, and the overall construction industry.
- Adopt strategies for technology transfer and learning-by-doing

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Thank you for your kind attention !

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