

Strengthening Local Economy in Nepal by Fostering Public-Private Collaboration

Policy Recommendation for
Butwal Sub-Metropolitan City, Lumbini Province



Background

“Public-Private Collaboration” (PPC) refers to the various avenues or modalities of engagement between government and private sector entities on policy issues, aimed at achieving common goals that benefit both parties and wider society. While interaction and engagement between government and private sector associations can occur at various levels, PPCs typically have their greatest impact when engagement occurs at the policy level. In addition, public-private collaboration fosters an enabling environment for business development, emphasizing enhanced cooperation between public agencies and business associations, particularly in areas of mutual interest.



Local economic policy-making based on ethical business operations

for overall prosperity-driven business environment.



Resource identification/sharing

for efficient resource allocation and use of resources based on priority



Local infrastructure development

for meeting infrastructural needs based on community feedback



Investment facilitation

for economic growth and employment generation

Through PPC mechanisms, institutions are developed to facilitate joint problem-solving in various aspects of the local economy. PPCs employ a structured approach to collaboration, leading to forming, revising, or updating policies to foster a prosperity-driven business environment.

PPCs recognize that neither the public sector nor the private sector alone possesses all the resources, expertise, or capabilities needed to achieve economic prosperity. PPCs allow governments to harness the efficiency and innovation of the private sector while fulfilling their responsibilities to provide essential services and infrastructure. PPCs embody the concept of shared responsibility and mutual benefit within a community. Instead of viewing government and the private sector as adversaries, PPC emphasizes the importance of participation and collaboration among diverse partners for the collective public good. Instruments of PPC ensure that local governments are held accountable for developing an enabling business environment and delivering public services. They enable broader stakeholder involvement in decision-making processes and promote transparency, accountability, and responsiveness to community needs.

PPCs also align with the concept of the interdependence of economic, social, and environmental factors, emphasizing the importance of long-term planning and responsible stewardship of resources. Institutional collaboration can integrate sustainability considerations into development initiatives, fostering resilience and inclusivity. Collaboration between public agencies at different levels (national, regional, and local) and private entities can embody principles of subsidiarity and local empowerment. Involving local stakeholders in decision-making processes and leveraging their knowledge and resources allows for bottom-up development and effectively addresses local priorities.



The public, private, and non-governmental sectors should collaborate to create better conditions for economic growth and employment generation. Local governments should strive to coordinate efforts, enhance the operational environment, and initiate actions within the framework of cohesive local policies or strategies. According to clause 24(3)(d) of the Local Government Operation Act 2017, municipalities must ensure maximum participation of local people for effective and sustainable development planning. The policy development process should be participatory and consultative, with local governments taking a proactive and facilitative role in stimulating local economic development¹.

Our Approach

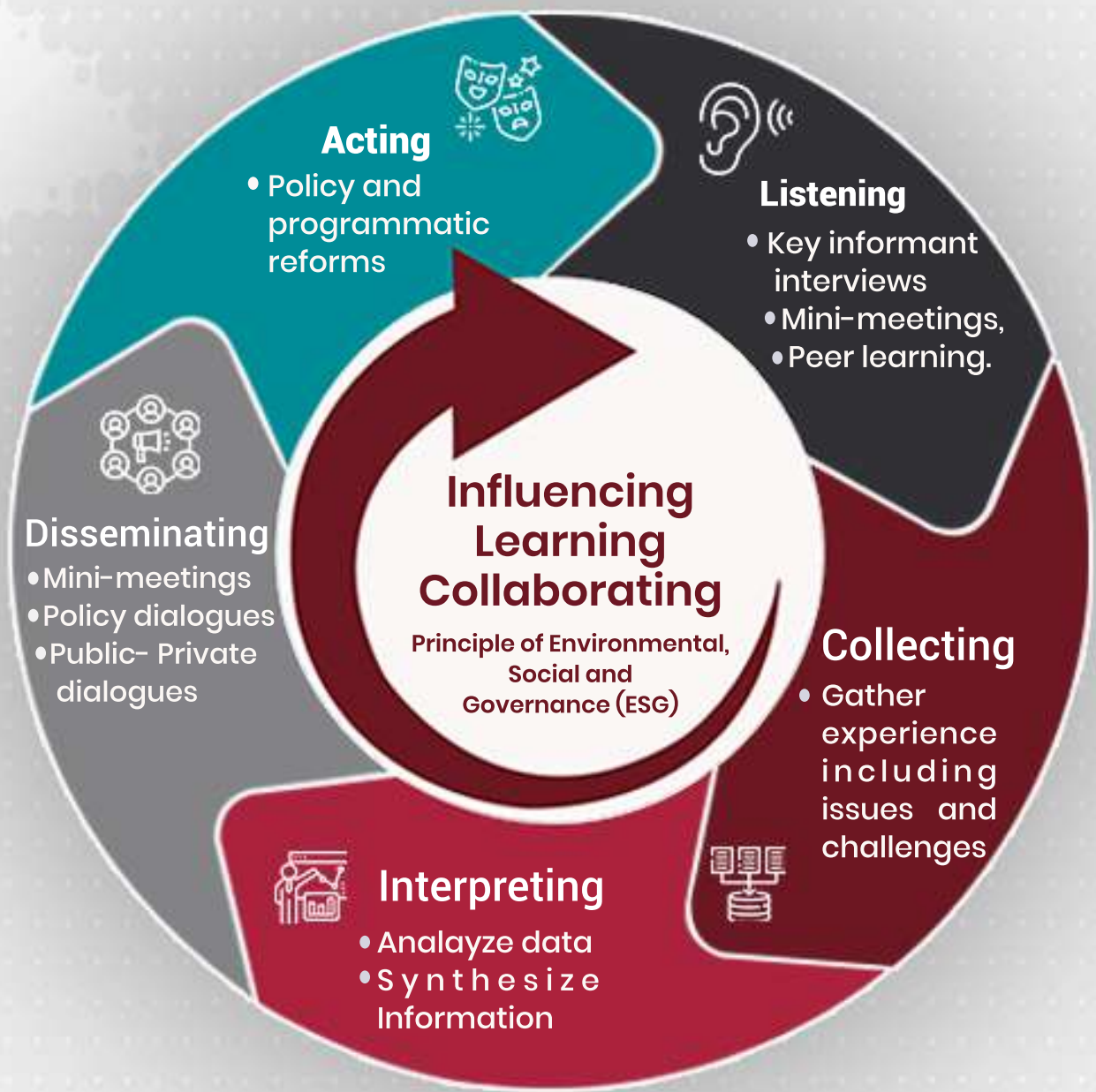
Butwal Sub-Metropolitan City is among the few local governments in Nepal that have established legal frameworks to facilitate private sector participation in local infrastructure development. The private sector and citizens at large are supportive of the local government's initiatives. Butwal has a successful track record of implementing infrastructure projects in collaboration with the private sector. Given this history of Public-Private Partnership (PPP) projects in Butwal, engaging with the private sector to foster an enabling business environment is crucial.

Accountability Lab aims to promote application of the principle of Environmental Social and Governance (ESG), therefore the local economy thrives based on social norms and environmental considerations. The present approach to promoting collaborations between public and private sectors gives due consideration to existing social, environmental and governance frameworks that apply to municipalities in Nepal. Butwal sub-metropolitan city has already developed a Green City Action Plan and has put in place other environmental safeguards. In this process, we reviewed existing forms of collaboration for policy-making between the public and private sectors and initiated discussions on formalizing a new structure of collaborations.

The goal is to create an environment conducive to business development and foster a vibrant local economy by leveraging the public and private sector network, relationships, and resources. This process ensures citizen voices to hold stakeholders of the business operations accountable towards fair and responsible ecological friendly and inclusive economic development with Nepal's sub-national government.



¹MoFAGA, *Reference Book for Rural Municipality and Municipality to Administer the Local Government and Manage Planning*. Kathmandu: Ministry of Federal Affairs and General Administration, 2018.



Why PPCs are Needed?



Significant resource gap between municipality revenue sources and development aspirations calls for partnership with private sector

The private sector will relocate if the business environment is not friendly

Managing formal businesses and non formal businesses

Mitigating business failure by incorporating civic voices

Existing forms of Public Private Collaborations

Municipalities have been working in partnership with the private sector. It is largely limited to:



Fostering Public-Private Collaborations

Although the above existing avenues provide ample opportunities for collaboration between the public and private sectors, the evolving complexities in their relationship calls for a more formal and structured approach to collaborations, especially in creating an enabling environment for businesses. Three key observations in the existing relationship between municipalities and the private sector justify the need for a dedicated space for policy discussions.

Firstly, business associations typically seek financial support or partnerships with municipalities to implement activities or programs, rather than engaging in policy design. They need to recognize their influence and advocate for engagement with municipalities at the policy level. Secondly, many business associations often make conflicting demands with municipalities without attempting to collaborate. There's a lack of coordinated efforts in jointly presenting demands to municipalities. Thirdly, interactions between business associations and municipalities are generally ad hoc and one-time events without a structured approach to discussions and agenda setting. This lack of structure hampers meaningful advocacy efforts by business associations in engaging with municipalities.

Given the increasing necessity to enhance private sector involvement in policy making, municipalities must establish dedicated spaces for private sector participation in shaping local business environments, extending beyond revenue and budget considerations. Collaborations with the private sector should not solely focus on revenue generation and tax rates; municipalities should adopt a broader perspective to foster an enabling business environment.

Creating forums like the Policy Dialogue Forum (PDF) presents an opportunity in this regard. While traditionally led by the public sector, the private sector can also take the initiative in forming forums dedicated to discussing policy issues affecting business growth. The Policy Dialogue Forum institutionalizes dialogue between the public and private sectors, thereby enhancing its effectiveness. Structuring these public-private dialogue forums ensures effectiveness in understanding business challenges, generating solutions through inclusive stakeholder engagement, and monitoring implementation to facilitate learning.

Accountability Lab Nepal proposes the following structured approach to local policy-making with the private and public sectors, based on engaged learning over the past two years:



Recommendations

As mentioned above, there is a need to apply a wide structural approach while promoting PPCs. Simply creating special committees or institutions and enacting laws are not sufficient for effective public-private collaboration. Therefore, the following steps are recommended for a structured approach:

1. Structuring the Role of Business Associations: Business associations must be equipped to generate evidence regarding the problems of local businesses, collect such evidence, and develop actions based on it to solve the issues and advocate with the local government. The existing practice of placing demands without evidence should be avoided. The Secretariat of the business association must periodically collect data or generate evidence regarding the business environment and compile it to identify problems. Once a business association applies this approach, it will have collected evidence to be used later during advocacy. The board of the respective business association must adopt the evidence, accept the problem, and officially agree on the solution.

2. Collaborations with Other Business Associations: Before presenting an issue to the municipality, business associations should collaborate to establish a unified position. In the case of Butwal, there are 5 different business associations. Each of these business associations have their own federation at the national level. These business associations lobby with local governments on business issues but do not work jointly, causing conflicting policy demands and priorities. As a result, the effectiveness of these business associations' advocacy is limited. That's why there is a need to build consensus among business associations regarding their policy demands to the local government. This consensus-building process can be led by any one of the business associations that has gathered evidence and identified the problem. Through this collaborative effort, additional evidence will be generated while discussing with other business associations and the problem and potential solutions will be refined collectively by all associations. This engagement ensures the authenticity of the process.

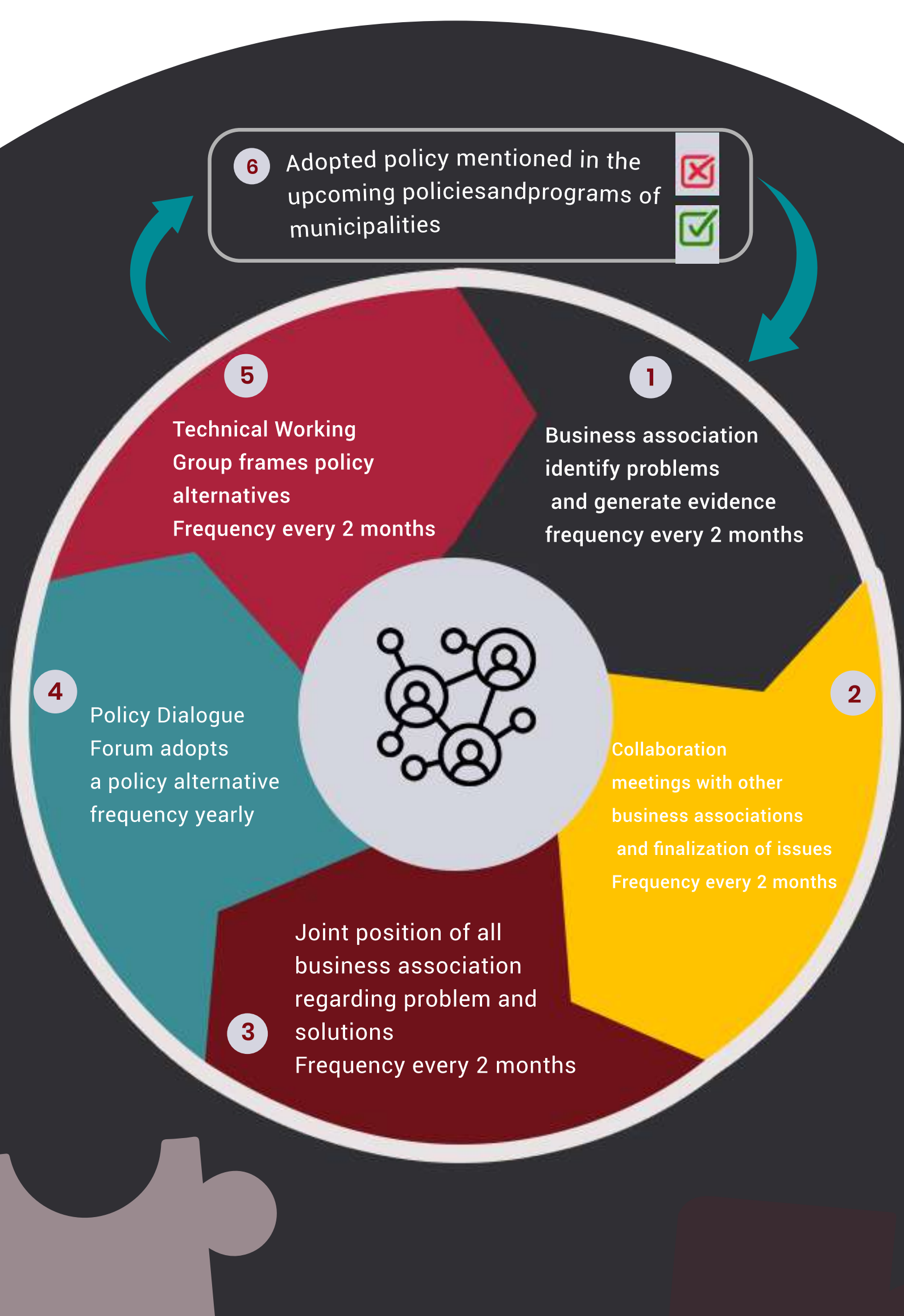
3. Formation of a Two-Tiered Committee by the Municipality: The municipality should formulate a two-tiered committee—one for developing policy proposals based on the identified problems, and the other for adopting a fixed policy proposal among many and authenticating the whole process. The lower committee will be a technical working group that consists of department heads of municipality, Chief Executive Officers of business associations, and local experts. This working group will forward the policy proposals to the Policy Dialogue Forum (the highest policy-making authority in the PPD process), chaired by the Mayor or Chairperson of the respective municipality, the chairpersons of all business associations, the Chief Administrative Officer, department heads of the municipalities, and an expert facilitator.

4. Technical Working Group: All business associations will jointly hand over their positions regarding the identified business problems to a technical working group composed of members from business associations, respective municipality officials, and local experts. The number of technical working groups will depend on the number and sector of identified business problems. This working group is a forum for technical people to discuss the problems and propose policy alternatives. The technical working group will review the evidence, frame the problem, and generate a policy proposal to solve the issue. It will also review legal considerations pertaining to the issue. The technical working group is required to develop strong policy proposals with action points for the municipality to follow during the implementation phase.

5. Organizing the Dialogue Forum: All policy alternatives discussed by various technical working groups will be forwarded to the Policy Dialogue Forum, chaired by the Mayor or Chairperson of the respective municipality and co-chaired by a representative of the business associations. This forum will involve selected members only. Policy alternatives will be discussed and those agreed upon by all members will be adopted. The members of the Policy Dialogue Forum should include the Mayor, chairpersons of all business associations, the Chief Administrative Officer and department heads of the municipality, nominated experts, and a facilitator. It should be ensured that any policy adopted during the Policy Dialogue Forum is compulsorily included in the "Policy and Programs for the Upcoming Fiscal Year" document by the respective municipality.

The success of the Policy Dialogue Forum will largely depend on the capacity and initiative of business associations in generating evidence, developing a common understanding among business associations regarding an issue, and ensuring that the policy proposals finalized in the Policy Dialogue Forum are compulsorily included in the "Policy and Programs for the Upcoming Fiscal Year" by the respective municipality.

This structured approach for promoting Public-Private Collaboration through the Policy Dialogue Forum ensures that the agenda presented to the highest authority (Policy Dialogue Forum) has been reviewed multiple times by various stakeholders at different levels and from different perspectives. The voices of the private sector are included in developing solutions, leading to the creation of policy proposals. These policy proposals are analyzed from a legal perspective and refined at the working group. Finally, the policy proposals are adopted by the Policy Dialogue Forum and included in the policies for the upcoming yearly planning process. The following infographic shows the flow of the agenda in applying a structured approach to policy dialogues to foster an enabling business environment.






Conclusion

The participation of the private sector in local economic development is not just beneficial but also necessary to meet the growing demands of urbanization, mitigate environmental challenges, promote ethical business, and equal opportunity to all, especially in rapidly expanding cities. Public-private collaborations are key to the free and responsible economic growth that lies in the heart of local development with the sub-national government in Nepal. They help use resources efficiently, promote sustainable development, and improve the quality of life for citizens.

However, the complexities of public-private relationships require a more formal and structured approach to create a supportive business environment. By working together in a structured manner, local governments can leverage the private sector's potential to achieve common goals and create a thriving local economy. Three key observations highlight the need for dedicated policy discussion spaces. First, business associations often seek financial support from municipalities for program implementation rather than engaging in policy design. Second, there is a lack of coordination among business associations, leading to conflicting demands and no unified approach. Third, interactions between business associations and municipalities are typically informal and unstructured, hindering effective advocacy efforts. Therefore, municipalities must establish formal spaces for the private sector to participate in local policy-making beyond just revenue and budget concerns. This broader engagement can be facilitated through forums like Policy Dialogue Forums (PDFs), which can be initiated by either the public or private sector, as per their needs

Creating dialogue forums is essential for effective public-private dialogue, which will lead to effective collaboration in policy making and its implementations. Business associations should adopt evidence-based methods that incorporate social and environmental norms, to make their advocacy more credible and effective. Building consensus among business associations is crucial to present a united policy demand to the local government. The two levels of committee (Technical working group and Policy Dialogue Forum) conceptualized in the PPCs ensure that policy proposals have been refined by private sector (stakeholders in the PPC process) and government officials who consider the legal implications of the policy proposal. Because policy proposals are developed jointly by the private sector and government representatives during the technical working groups meetings, it becomes easy for the policy dialogue forum to adopt specific policy demands. This ensures that decision-making at the policy dialogue forum is wise and efficient, as most of the operational aspects of policy-making have been handled by the technical working group. This structured process ensures that policy proposals are reviewed, refined, and ultimately included in the municipality's annual planning. Overall, this approach ensures comprehensive stakeholder engagement, resulting in well-developed policies that foster a supportive business environment.







Accountability Lab is a global translocal network that makes governance work for people by supporting active citizens, responsible leaders, and accountable institutions.

This paper is published with the support of the Center for International Private Enterprise (CIPE) for our initiative to promote an open and responsible economy in the sub-national governments of Nepal.

For more details

 www.accountabilitylab.org

   @accountlabnp