# CHAPTER I

# INTRODUCTION

## 1.1 Introduction of Public Enterprises and Privatization

In 1956, Nepal Government took initiation to involve in economic enterprises as a vehicle for planned economic development while the first five year plan launched in the country. Basically Public Enterprises (PEs) operate on infrastructure, industrial estates, banking, trading and commercial sectors to a member of big and small manufacturing enterprises. Historically 61 numbers of public enterprises were involved in Nepal. PEs have their own different legal status which were established as public corporation, companines, bankers etc. They have been playing significant roles under the government's development policy in Nepal.

Before establishment of PEs, the first industy of Nepal simply known as Biratnagar Jute Mill was established in 1936 AD which was joint stock industral company. During the second world war period, a group of 14 joint stock companies, small and big, were incorporated in various fields like mining, hydro-electric supply, cotton texttile, paper, soap, glass, furniture etc. Likewise in the post war period (1946-1950) 35 joint stock companies incorporated in which 15 were rice, dal, oil, mills. Out of 35 nearly half were wound up with in the short period due to various conditions (Bajracharya, 1996).

After the great depression (1930), J.M. Keynes wrote a book, "The End of Laissez-faire Policy" in 1937 AD. He described the better aspect of both capitalism and socialism as a mixed economy in his book. The mixed economy included both private and public sectors. The social welfare aspect should be controlled by government and employmentable, exportable, productiable, import substitution benifitable industries should be given private sector. In this policy government has taken greater role to producing sector of industries. Small and national priority industries should be given protection by the government. Government should invest in the social welfare aspect which are impossible by private sectors. Economic planning and management should be managed by government. Industrialization should be developed according to development planning of the country. According to Keynes, public enterprises were established in order to prepare infrastructure survive, to produce the required goods in the country and to export, to help in controlling the price situation, to create opportunity of employment, to increase government revenues and to contribute significantly in the country's development (ibid).

"Today the word PE is very much associated with the discussion of economic development and particularly in the developing country, where expectation of people for rapid as well as equitable growth has invited states to intervene conspicuously in national economic activities, it has intensified its importance. The state intervention, through PEs is guided by different motives in different countries" (Hanson, 1965).

Nepalese PEs were running in profit, some were in loss and some were neither loss nor profit situations. "Out of thirty six PEs, 17 operated at profits during the FY2005/06 while 19 incurred losses. The outlook for FY 2006/07 is relatively satisfactory during this year. 21 PEs are expected to earn profits and remaining 15 will incur losses. Due to the heavy operating loss incurred by Nepal Oil Corporation during the FY 2004/05 to Rs.1.69 billion in FY 2005/06. The estimated operating profit for the current fiscal year 2006/07 is Rs. 7.80 billion. Since the targeted operating profit/loss for FY 2007/08 could not be obtained from some PEs, the estimation of overall targeted operating result for the period is not possible" (MOF, 2008).

Economic development through the public sector was the delibarated policy of Government of Nepal (GON) to replicate the state of economy. The public enterprises have dominated today every sphere of the economy and investment in the public sector has gone up to such an extent that the health of the national economy depends upon its proper utilization. But the poor performances of PEs did not fulfil the broad national objectives about socio-economic development of the country. The reason of poor performances are lack of clear-cut objectives, political interferences, financial problems, management problems, lack of autonomy, excessive control, personnal managament, insufficient capacity utilization, lack of sound pricing policy, weak industrial relations, problem of public accountability, defective project formulation, inefficient use of men and resources, production of low quality goods and services, uncontrolled administrative expenses, lack of motivation in incumbent human resoures, adoption of traditional technology and minimum use of professionalism which brought about a progressive decline in their output and made the vast amount of government investment unproductive (9th plan, 2054-2059 B.S.NPC). The poor performance of PEs inforced to privatize them for better utility of the resources.

The private sector delivered “public services” and helps to build infrastructure in weastern industrial nations for several hundred years. In North America, for instance, private firms had contracts to clean the streets of NewYork as early as 1676, a hundred years before the American revolution. Municipal governments have been contracting with  private sector for the provision of services and infrastructure ever since, further more, large fraction of federal, state and local budgets have always gone to purpose goods and services from supplier outside government.

The father of economics, Adam Smith advocated in his well known publication “The Wealth of Nation” about the privatization in 1776 AD. According to him, private ownership improves the productivity and efficiency. But privatization in its variety of form has been predominant global ideology of the 1980s indeed. The concept of privatization is not new nor is it being applied only in developing countries. “Privatization increased private sector participation in the management and ownership of activities and assets controlled and owned by the government” (WB, 1996).

The globalization and libaralization process created a worldwide pressure on planners and policy maker for new vision to develop libaralized national economics. Such development requires a sufficient and high amount of investment that is possible through channelization of what the people save. Similarly the government has given primary attention on the development of industry, company and institutional or corporate development in the country promoting trade, commerce and industry by privatization public enterprises (Luitel, 2004).

As explaind by Fraser and Wilson, the privatization started in the eighties with “Thatcherism” in the United Kingdom and “Reaganomic” in the United States. President Ragan (1980-1988) was for free market economy the over to make entetprises competitive and efficient in the UK. In 1979, the conservative government came in power under Margarate Thatcher and made a radical move towards privatization of industry and services. The number of countries selling state owned enterprises increased in the 1980’s as divesture spread from the industrialized economics, notabaly the UK, to the developing economics throught out the world. A World Bank study report about developing country mentioned 86 percent of divestiture transactions during 1988-93, which accounted for more than five times the number of transaction in the previous eight years 1980 to 1997 (Ganesh, 1998).

During the period of 1980 to1985 privatization process started in Nepal while Nepal Cheuri Ghee Plant and Chandeswory Textile Factory sold to private sector in the sixth plan period. In 1985, Finance Minister made an ambitious plan to sell 12 PEs for private sector but useless. Because the over valuation of shares, maximum limit to the subscribers of the shares, the limit on the time duration for subscription and the major course was the lack of government homework. However privatization process rapidely increased in the age of restoration of democracy while the Industrial Policy, 1992 and Privatization Act, 1994 came into existance in Nepal. More than 29 PEs are privatised till now and this process is still continues. But privatized industries are rarely able to sustain, many of the industriues were collapsed within a few year of privatization.

## 1.1 Statement of the Problem

Nepal established public enterprises to achieve economic development in the decade of 1950. But all the government owned PEs did not fulfill the objective of their establishment. Many of them ran in losses and created burden for the government. S ome of them have run neither in loss nor in profit condition and few of them operated in profits situation. In this context, many of the donar agencies and policy makers had emphasized on privatization for PEs to achieve more utilities, eliminate the state's burden, higher product, more employment etc. For this porpose, the international development agencies had announced to provide a technical assistance to the developing countries like Nepal. Then, Nepal started privatization process of the PEs and got some assistance according to the announcement but the performances of PPEs were poor. It has lost many industries, those products, employmants, income, identity and badly affected export and import of the goods and services in the country. In this context why did not fulfill the objectives of privatization without elimination of government burden?

## 1.3 Objectives of the Study

The general objective of this study is to find out why the PPEs performance is in poor situation in Nepal.This study also has some specific following objectives as;

1. To analyze the past and present status of PPEs
2. To over view the privatization process and its impact, and
3. To find out the causes of collapsed PPEs

## 1.4 Significance of the Study

This is a study of perfomances of the PPEs in Nepal. So it helps to inform the performance situations of PPEs in the past and present and predict future of such industries. So it is helpful for any student and researcher of PEs and other PEs privatization process in Nepal. This study has analyzed the weakness and strongness of the privatized PEs. And it is also tried to suggest the policy maker for future privatization process so that the PPEs do not collapse in the future to cure.

## 1.5 Limitations of the Study

This study has some limitations due to secondary data based, information constant, no other updated study of the related entities and no situation to provide/to get the latest data from the closed industries. That is why there is lack of up dated data of the sample industries to varify all the last performances of the PPEs. However the study has partially analized the situation and that's impact on national economy of the closed industries as an updated information.

## 1.6 Organization of the Study

The study is structured in six chapters; first chapter has covered introduction, statement of the problem, objectives, significance, limitations and organization of the study. Second chapter has included literature review whereby national and international context is mentioned and third chapter covered methodology; research design, sample of the study, sources of data, and analytical tools. Likewise fourth chapter has included Privatization of Public Enterprises. Fifth chapter carry out Privatization of Public Enterprises in Nepal. And summary, conclusion and recom mendations are included in the last chapter. Moreover some appendixes and references are presented in the end of this study.

# CHAPTER II

# REVIEW OF LITERATURE

## 2.1 Theoretical Literature

The word private is derived from latin word *“Privatus”* which means ‘not belonging to the state or not in Public life’(Shrestha, 2004). The word privatization first appeared in a dictionary in 1983 and was defined narrowly as to make private especially to change (as a business or industry) from public to private. Privatization is the act of reducing this role of the government, or increasing the role of the private sector, in an activity or in the ownership or assets.

### 2.1.1 Definition of Public Enterprise in International Context

Seoul workshop of Performance of Public Enterprises in Asia(PPEA) project was agreed upon the definitions-“It denotes all productive entities/organizations which are owned and controlled by public authorities and whose output is marketysed” (Laory,1975).

“Productive entity or organization refers to an identifiable decision making unit with an explicit or extractable budget and which produce goods and services.”

“Ownership” refers to such entities or organizations where more than 50 percent of outstanding equity is held by a “public authority” either “directly” or “indirectly”.

“Control” means the power to be involved in the management of the enterprises through the appointment of top management, members of the board of directors and the chief executives.

“Output” is said to be “marked” if sales cover more than 50 percent of current costs, here refers only to intermediate input and returns to factors, which constitutes largely wages and rent not owned by the enterprises.

UN defined,-“Those organizations, namely government enterprises and public corporations, which are entirely or mainly owned and\or controlled by the public authorities consisting of establishment which by virtue of their kind of activities, technology and mode of operation are classified as industries”(HMG/N, 1978).

*“Privatisation is a term used to cover a range of policies from those of governmental disengegement and disregulations to the sale of public owner assets. It is selling out of public owned assets to the private ownership through stages and process”* (Mansoor, 1998).

It can take many firms but all of them involve reduced over for the state power. *“Privatization is broadly defined to include not only the sale of state assets but also privatizing the management of state activities through contracts, case and contracting out activities that more previously done by the state”* (Shirley, 1980).

On the other hand Cool and Kirkpatrick approach, *“Privatisation from three different angles; firstly refers to a change of ownership of an asset or part of it from public sector to private entrepreneur through the process of denationalization or divestiture. Secondly, the privatisation can be brought in by allowing the private sector to enter into the areas until now protected by for the public. And thirdly, privatisation can be introduced by way of contracting out the services and utilities while retaining the ownership with government”*( Paul and Colin, 1988).

*"Privatisation in developing countries could be seen as not only the process of transferring public sector industries to private sector but also as a measure of strengthening the private sector itself. The weak private sector in such countries need strengthening in term of size, funding, technology, manpower, operating management, management risk absorption and integration of this sector with the internal and external markets” (Mishra and Bhat, 2002).*

## 2.1.2 Definition of Public Enterprise in National Context

“Enterprise” means a company, corporate body; industry or any other institution wholly or partly owned by Government of Nepal and this expression shall also include other company, corporate body, industry or any other institution under the control or ownership of such company, corporate body, industry or any other institution (Privatization Act, 1994).

*“Privatization means involving private sector in the management or to sell or lease it, or to transfer government ownership into public ownership, or an act to infuse participation by any means, either wholly partly of private sector or of the employees or works, or of all desirous groups”* (Privatization Act, 1994).

*The broder definition of privatization is the strategy or the process which transfers an asset or enterprise totally or partially, which is owned, or controlled either directly or indirectly by the state to the private organization* (Pyakuryal, 2006).

In a narrow sense *“Privatization implies permanent transfer of control, where as a consequences of a transfer of ownership right from public agencies to one or more private parties or for e.g. a capital increases to which the public sector shareholder has waived its right to subscribe. In a broadest sense the word privatization was used to describe role back of the state in the lives and activities of citizens and strengthening the role of markets”* (Agrawal, 2002).

## 2.1.3 Books Review

Ramanadham (1991); The Concept of Public Enterprise, briefly is that it refers to an organization which combines in itself elements of publicness and enterprises. The elements of public-ness may be set out under these heads:

The entrepreneurial and major operational decisions are made by non-private agencies and the essential criterion of the decisions is not limited to the financial returns that accurate to the investments. The sources of decisions may be understood in two senses; (1) the agencies which take the decisions, and (2) the criteria on which decisions are taken. The latter is more important. Where an agency takes a decision, what is important, is not that it takes it out of its power but the decision rests on criteria that have a public surpport.

The net benefits of operations accure, not to private parties, but to public. The reason is that the equity capital belongs to the government or some other public agency. In the case of a public enterprise which has no equity capital. There can be different ways of profits utilization, but there is no investment in the sense of equity holder to whom it goes. The enterprise is expected to be accountable to society. This follows directly from the element of public decision implicit in the concept of public enterprise. What is implied is not simply that the managers are accountable to those that decide, but that the enterprise as a whole, including the governmental agencies take the decisions, should be accountable to society. In formal terms the accountability may be to parliament, the ultimate guardian.

Organizational characteristics of enterprises are; (a) It is expected to be financially viable, by intention and in the long run. In this way it can hope to be under market disciplines, right from the procurement of capital, if necessary. (b) The price it charges should be based on related cost. This requirement goes beyond the overall coverage of costs by price proceeds. It is possible that an identified segment of operations is relieved of the requirement of cost-based prices for extra enterprise reasons. That segment would be in the nature of a non-enterprise.

The emergence of public enterprises in developed economies has, by and large, been linked with post-development problems. For instance, the needs of rationalism, restructuring, or rehabilitation of industries. Already well developed were prominent in the UK nationalization in Austria were owned to the need of ‘profound recognisations and comprehensive planning to overcome their fatal propensity to crisis and brokendown.

Basically the comparative advantage of public enterprises is likely to be positive;

- Where the active is prone to be a monopoly or has to be maintained as a monopoly for some governmentally approved reason, and control over it, if in the private sector, is unlikely to be effective;
- Where viability is (or is kept) low for any reason that the enterprise management cannot surmount;
- Where technology is only importable and promotes governmental intervention of regulatory of control nature so as to avoid or minimize foreign managerial control over the enterprise;
- Where capital resources are only importable and the government seeks to avoid of minimize managerial control over the enterprises by the foreign supplier of funds.
- Where the potentiality of the enterprise to add to the concentration of wealth and income in the community is high and therefore prompts policy intervention by the government,
- Where the governments social policy preferences so touch the enterprises as to affect its suspicious position adversely; and,

- Where the organization of the enterprises in the public sector does not expose it to any costs additional to those it would sustain by being organized in the private sector.

The cost condition is a crucial one and can be negative and sustainably reduce the comparative advantage of public enterprise is practice. Three aspects of growth objectives are; (a)The prices may be promotional all along; (b) A project may be marked by an accelerated rate of growth that represents haste, (c) Some projects in the public sector as well as the sequence of capital expenditure depend, essentially, on the rate of flow of foreign aid.

The advantages claimed for the autonomous form of public enterprises would be at a maximum: (1) When its extra enterprise objects are determined by mutual consent ex ante, communicated to the managers in clear terms, and duly compensated for, promptly; (2) When the extra-enterprise objectives are expressed in on structured manner, for example, through an act or governmental direction, and not in an informal or covert manner; and, (3) When it is reasonably possible to distinguish and measure the operations traceable to extra-enterprise objectives from the risk.

Manandhar, (1998) in his book, entitled Public Enterprises and Privatization has said that government seems to have missed on four counts in privatization; First, the privatizated enterprises were substatenly undervalued. New there is an authoritative accusation by a constitutional body like the auditor generals office.

Second, the government has failed to collect due amount from the purchaser. Third; whatever amount is being collected is being spent on the expense and liabilities of the privatization program. Finally there is not even a plan of action concerning the utilization of the privatized sales proceeds. Now the public is even questionning the property of creating a central privatization fund, when in fact all public money raised from privatisation should have been deposited in the consolidated fund.

Privatization has proposed a great deal as an economic movement in the developed countries. To inject a new stimulus, the developed countries adopted privatization in three forms: Mega, Macro and Micro. All the three initiatives resulted in the rollback of the state from provider, producer, welfare, police to the regular state. In mega terms the developed countries called for globalization to facilitate undered movement of labour, capital, technology and goods to exploit the benefits of indivisibility of scale.

The property rights theory acted as the main catalyst in giving this call by the developed countries. In macro terms the developed countries initiated privatization by liberalisating their agricultural, industrial, fiscal, monetary, trade and public sector policies. The deregulation constituted the backbone of this libaralisation. In Macro term the liberalisation has dealt with changing the structure and the working of firms. A package of measures was introduced to provide freedom in decision-making and action to the firms which constituted a part of the government sector.

Privatization programme must have to achieve some clear goals. Normally, a trade-off has to be achieved between revenue versus efficiency. The revenue goal is a short term objective and the enhancement of efficiency is a long term one. It is difficult to ignored, it is very important to consider their long term socoi-political implications in terms of redistribution of wealth, enhancement of efficiency and competition. The choice of public enterprises for privatization poses as another problem. The characteristics of the unit and the objectives of privatization together should guide the identification of the candidates for privatization. The choice of public enterprises is based on their characteristics. One set of characteristics comprise aspects such as their being strategic, core competitive, small, profitable, public utilities high social content oriented.

The other set of characteristics ranged from their being non-strategic, non-core, non-copmetitive, large, non-profitable, general and low social content oriented. Three models could used for rational decision-making in regard to the slection of units for privatization. The three dimentional matrix model based on factors such as public purpose, mobilization of resources from extended sources and profitability could be applied to rank public enterprises as high or low while enterprises being high on all the three dimentions merit retention in the public enterprise portfolio. On the other hand enterprises being low on all three dimentions need to be restructured. The enterprises falling in the other catagories point to the need to be restructured.

The second model is based on financial performance. In terms of market structure, they may belong to single source of supply emerge as clear candidates for privatization. On the contrary, the enterprise charaterised with good financial performance but belonging to single source of supply need to be retained in the public enterprise portfolio. The enterprises in the other catagories need to be restructured.

The third model takes into considarion the firm level determinant. The firm level determinants comprise the performance of public enterprises and its size. The adoption of third model may result into a number of problems (1) small PEs are more prone to privatization than large ones (2) Public enterprises that resulted from negotiation or that are still partially privately owned and/or were greenfield investments by the states (3) PEs in competitive markets or potentially competitive markets are more prone to privatization then PEs in monopolistic markets (4) Monopolistic PEs in sectors that benefit from regulatory innovations like vertical and horizontal break-up, yardstick-competition or price regulation are more prone to privatization (5) PEs in countries where the political leadership is idelogicaly committed to private ownership and market forces are more likely to be privatized then those where the political leadership is committed to state ownership and/ or command economy (6) PEs in countries facing a macroeonomic crises is one more likely to be privatized than PEs in countries with stable economies. PEs in countries with weak market supporting structures are less prone to privatization than those in countries with stronger institutions, especially if they are large monopolistic firms.

A great clarity is required about to move of privatization. The ownership privatization has two components. The total ownership privatization comes through off loading the unit to the private sector, general investing public. The partial ownership privatization is achieved by off loading part shareholding to the general public and workers and managers.The management privatization can be total or partial. The total privatization in this case can be achieved through sub contractuling, leasing and Build-Oprate And Transfer (BOAT) whereas the partial privatisaon could be achieved through joint venture and public participation in equity. The financial privatization could also be total or public. The total financial privatization could be achieved through the full-fledged sale of equities. The partial financial privatization could be achieved through working capital mobilization from the capital and money markets, setting up financing agencies and security suppliers credit.

It is imperative to resolve the choice between total and partial privatization. The total privatization distances the enterprise completely away from the government. The essence of privatization lies in relinquishing control to achieve behavioural changes in the functioning of a public enterprise while retaining majority ownership to maximize the governments share to the result of the changed behavior. Partial disinvestment is a mere cosmetic change. The economic argument gives in favour of the partial privatization veers around signaling government's commitment to current policy and willingness to bear financial cost of policy changes resulting in the government gaining from increased market capitalization. However, the effectiveness of such more depends upon introduction of competitor, transfer of control, monitoring offerings as a prelude to majority offerings and an assurance later of total privatization. The limitation of this more is its reversibility.

The optional valuation decision is another vital issue. There is a need to select the most suitable method and ensure complete transparency. The methods of share valuation could be listed under three categories viz. asset oriented valuation methods, income oriented valuation methods and integrated valuation methods. The asset oriented valuation methods broadly includes net tangible assets method replacement value of net assets method and realizable value of net assets method. The earnings oriented method comprises capitalization of historical earnings, capacity value. The integrated stream consists of market value method, face value plus interest method and divided valuation method. The selection of method should relate itself to asset orientation, earnings orientation and the general health of the enterprise. The choice of the method should be guided by the considaretion of the best value which may yield the maximum revenue to the treasury.

This leads us to the issue of putting in place an appropriate mechanary for privatization. The multiplicity of agencies has been identified as a negative fraction arresting the smooth functioning of the privatization process. This is why in most of the countries opting for privatization, a full fledged autonomous agency has been created accountable to be body none other than parliament.

The selection of an appropriate method is essential to make the privatization process a success. The selection of method will be governed by a host of factors viz. objectives of privatization, form of organization, financial condition (Profitability i.e. whether profit making or loss making) and record of the unit to be privatized and the environment of the sector to which it belong to and state of capital market. The privatization could be effected with or without divestitute. Again the privatization with devistitute could be full or partial. Even the partial privatization could be majority or minority privatization. In both the cases public offer, private placement, management/enterprise layour and joint ventures are resoted too. The public offer is effected through fixed price offer or tender. Privatization without diverstitute is effected through methods, positive or negative in nature.

The positive methods include removal of entry barriers, competitive restructuring, lease management contructs, licensing/franchising and joint ventures. The options for the transfer of ownership both in the case of positive and negative divestiture should exercised giving due regard to considerations such as reputation of company (whether company is well known or not), good management, profitability, restricting, need for new capital, introduction of new technology/management, enlargement of share ownership and relization of maximum proceeds.

## 2.2 Empirical Literature in International Context

The "*South Asia Privatisation Summit,*" held in Dec.1999, summarized the lessons of privatisation as follow;

1. Policy makers must be absolutely clear that privatization is the prime aim of the exercises. If work and industries can be modernized, and if inefficient bureaucrats can be replaced by bold risk takers.
2. Privatization is a political process to make it economically successful. Politician must listen to public opinion and win its support even they commit to privatization intellectually, emotionally, their skills want to steer.
3. One should not allow considerations of sale price to dominate the whole privatization activity of courses price is important. Price must not be sole consideration. It is important sole consideration. It is important to choose an investor with the right technical expertise and financial resources.
4. To run the industry through but it may be expensive also. The correct policy is to treat price as one important factory and try to keep a correct balance among other factors.
5. It is important to choose the most appropriate method of privatization. It has been already 20 years since the privatization process has started. There are many methods. It is not a simple formula. It is as approach a determination to have done privately that which was done publicly. It should be commercially viable.
6. There is no standard set for privatization. Each country has its own unique culture and traditions. No two sets of privatization are even identical. The approach must be custom tailored to each individual task.
7. Don't put too much of an emphasis on pre-privatization restructuring. It is better to leave it to the new strategic investor who knows what they want rather than attempt to make the decisions for them once the firm has been privatized restricting will be continuous as the firm expands or contracts to meet changing market needs.
8. Competition should be introduced wherever application in the privatization process although a monopoly will often sell for a higher prices, it will cause more problems in the future. It is the best for privatization.
9. The process of privatization must be transparent how and in which way the process is being carried out. It must not be kept on isolation from the public.

10. Various groups might be involved and affected by privatization. The skill consists of identifying in advanced the groups which will be affected, and involving them in the outcome, e.g. job guarantee of the workers etc. it is a very complex process. So it is like a job of the cook who knows to mix all kind of spices in preparing a good meal.
11. There may arise some different problems during privatization process. So, one should be able to identify the problems in advance. It is like playing chess. It is to anticipant in advance what is going to happen and be able to more accordingly.
12. The process of privatization should be used to extend share ownership wherever possible. It enhances the economic and social benefits. The advantages of wider share ownership to the new company are several. If people own shares they feel a sense of loyalty to the company and are more likely to use it instead of its competitors.
13. The government must be determined to do it. The benefits take a little time to come, as it is a continuous process. So, if you want to enjoy the benefits of privatization. It is not simply to contemplate that you have to actually do it (Poudel, 2004).

## 2.3 Empirical Literature in National Context

The doctrine of public sector emphasis upon the principle of welfare state, where each activity of the government is expected to safeguard and promote interest of public. For this, the state has to come forward to control and manage the national resources in public interest. This objective can be achieved through either intervention and /or enterpreneurship. Intervention affects the existing system of private while public sector is the outcome of state entrepreneurship (Koirala, 1992).

### 2.3.1 Growth of PEs in Nepal

In 1956, GON involved in economic enterprises a vehicle for planned economic development through the establishment of Nepal Bank Limited while the first five year plan was launched. Broadly, they are called public corporations, companies or banks as they have been established under different status. A few of them are also run as GONs departmental enterprises. The nature and scope of PEs can be visualized as all institutionalized activities in a mixed enterprises system. By than 1974/75, the numbers of PEs increased rapidly to 61.

During the first plan period, interim period, second plan period, third plan period and fourth plan period 7, 3, 11, 12 and 27 PEs were established respectively-corporation co-ordination council, profiles of public enterprises in Nepal."GON has invented a equity capital of RS. 17943.4 million and loan investment worth Rs 53, 298.9 million totaling Rs. 71, 242.3 million on the existing 39 public enterprises up to the financial year 1999/00. However in the in the public enterprises in manufacturing sector operating profit and net capital employed amount are Rs.409,000,000 and Rs. 4,858,600,000 respectively during the fiscal year 1990/2000 (MOF, 1977).

Basically the PEs operate on infrastructure, industrial estates, banking, trading and commercial sectors to a member of big and small manufacturing enterprises. "in the first stage two public enterprises had privatized; namely Nepalese Carpet (P) Ltd and Vegetable

Ghee Industry Ltd. have been disposed off to the private partie. Thus there were 59 public enterprises (Appendixe 1) and in the second stage thirteen PES had privatized. Third stage would be decided later one which had not been yet privatized till 1992" (Bhusal, 1999). However there are still conducting 32 PEs in Nepal (Appendixe 2)

### 2.3.2 Review of Reports

Ministry of Finance(1999), in its report entitled *Monitoring Privatised Enterprises in Nepal* prepared by the Privatization Cell at the Ministry of Finance (MOF) claimed that the performance of ten privatized enterprises was very fine in term of production, invesment, profits and managerial skill. The report said that the post privatised performance of enterprises was very emcourasing and claimed that majority of the cases of performance of the former state enterprises after privatization have shown significant improvement.

Nepal's privatization program has been a reassuring success with a majority of the privatized enterprises doing for better than they could do under government ownership of the major ten enterprises, nine have increased investment and in only one has invetsment decreased, six enterprises have increased production, seven has increased sales and one has little change, five shown increased profits. Privatization programs in totality has brought positive impact on the economy. Most of the privatized enterprises are doing well even those which are not performing absolutely well have shown improvements in terms of this or that factor.

The report mentioned the objective of Privatization as;

1. To promote economic efficiency by fostering well functioning of market and competition;
2. To reduce the role of the state in order to allow it to concentrate on the essential tasks of governing and to with draw than activities which are better suited to private enterprises, especially where original objectives at a SOEs are fully achieved or are no longer valid due to technological advancement or in order to eliminate under fair competition with private enterprises;
3. To reduce the fiscal burden of SOEs running on loss, in order to help regain fiscal control and macroeconomic stability; to reduce public debt;
4. To promote the private sectors role in industrial investment
5. To generate new investment, including foreign investment.
6. To mobilize domestic resources for development and domestic financial development; and
7. To spread and domestic share ownership by distributing it among individuals, making employees share owners and by raising productivity through incentives for holding stocks.

Both external and domestic liberalization positively affects not only the manufacturing sector but also the entire non-agriculture sector. Their impact could be enormous on wholesale and retail trades, transport and communication, banking estate and business services, entertainment and other services. It was obscured in higher non agricultural growth rate in the post liberalization period. Manufacturing sectors share is also growing rapidely in total output of the economy (based on 1986\87-1989\90) to (1990\91- 1993\94) of MOI, 1994.

Nepal exports increase at an annual rate of 23.7 percent in dollar terms during the last four year (1984\85 -1989\90) to 1990\91-1993\94). The rapid growth of exports was due mainly to improve trade and exchange rate policy. However, Nepal exports have concentrated only on two items; woolen carpet and ready made garments. The growth in exports of these commodities was possible because of improved profitability caused by the reforms. However, the growth rate of exports has decoded recently, mainly on account of the revaluation appreciation of Nepalese currency in real terms. On the other hand, two positive signs were observed following liberalization. First, import grew at a higher rate but was much smaller than the average export growth rate. The main reason for this decline was the depreciation of the real exchange rate which made imports expensive.

Second, the share of intermediate goals, which are used mainly as raw materials in industries, rose after liberalization (1986\87-1989\90) to 1990\91-1993\94). MOI 1994 HMG\N. This shows that the trade barriers were higher for intermediate goods compared to capital goods before the recent economic reforms.

Similarly the number of registered industries is rising at a rapid pace in recent years. For example a total of 5675 small and cottage industries including 1,112 new cottage industries were registered as of the end of 1991\92. This number rose to 6781 in 1992\93. Sit has been established that the number is rising at a rate of about 18 percent per annum since then Before the implementation of the economic liberalization policy in Nepal, the average number of industries registered annually in the manufacturing sector was 1025 where as it increased to 5331 during the fiscal years between 1990\91 and 1993\94 after the policy implementation in Nepal.

Summary; The speed of privatization in Nepal is increasing year by year but there are many weaknesses in privatization process, so the workers are laid off from production and unemployment have increased. Privatization might have decreased the burden of GON. But the consumer price index has increased two fold. There is not given compensation facilities to the general mass people who are hit by the privatization policy of government for closing industries. Indirect imports included expanding of the capital market and increasing faith of the foreign investments and the private sector in the role of the government in Nepal. The results of the privatized agricultural forms are not satisfactory.

Human Development Report (1993) chapter three with heading, Private Enterprise explained the seven major significance of privatization as follows:

1 It does not only maximize revenue, create a competitive environment.
2 It does not replace the public monopolies with private monopolies.
3 It does not sell through discretionary, non-transparent procedures, which invite allegations of corruption and nepotism.
4 It does not use sell proceeds to finance budget deficits retire debt.
5 It does not "crowd" financial markets with public borrowing at a time of public disinvestments.
6 It does not make false promise to labor retrain learn for new industries.

7 It does not rely merely on executive orders create a political consensus.

In order to increase the productivity through enhancement of efficiency of the state owned enterprises of Nepal, and thereby, mitigate the financial administrative burden to the government, and to usher in all round economic development of the country by expanding the participation of private sector in the operation of such enterprises. It is expedient in the national interest to privatize such enterprises and to make arrangements there for.

Pro-public (2000), *Privatization: Exception and Reality*, with the objective to find the perceptions of stakeholders in terms of gains and losses from the privatization process; to find out the process of privatization and level of transparency followed by the government while privatizing the SOES; to assess the performance/efficiency of the privatized SOEs; and to suggest policy prescriptions for privatizing SOEs in the future with the main objective of determination of transparency in the process of privatization and the gains and losses of stakeholders thereof. Findings of the study are to ensuring transparency; proper valuation of the property; proper selection of bidder; easy handling over process; Job security of employees; proper consultation with all the stake holders; define terms and conditions with the bidder in agreement and national interest while privatizing PEs.

And the study recommended that the process of privatization of PEs is inevitable but it should be done according to priority basis with strong regulatory mechanism development. *PEs are running in lossess are the burden for the government and they should be managed by private sector. So it must be privatized.

*Due to poor management, political interfarance and labour protest in the SOEs their effency and productivity are decreasing. At the same time the financial and administrative burden of the government is increasing. SOEs which are relatively less important from the point of view national and which could be managed by private sector should be privatized and gradually privatized.

*The key issues like welfare of employees, proper assessment/valuation of public property, technical and financial capabilities of bidder, price and quality control should be given due attention in privatization period.

*As post-privatization monitoring is likely on the part of the government, a system should be instituted for regular monitoring and evaluation of the performance of the enterprises after their privatization.

*The level of transparency followed by the government during the privatization was found to be lacking and has resulted intermination of contract, mismanagement of the enterprises, misuse of public resources, labour protest, misunderstanding, among the stakeholders, loss of revenue and westage of public resources. The privatization process should be made more transparent through public consultation, consultation with the stake holders, fair competition with the bidders, proper valuation of assets and by including property and defined terms and conditions during the transactions.

*Compared to other methods of privatization, share sale method could be more effective and transparent. Therefore, priority should be given to involve public and employees as owners. This could be more effective and transparent. Therefore, priority should be given to involve public and employees as owners. This could be done by distributing bulk shares to employees and common people instead of selling bulk shares to some particulars individuals and/or parties.

*Internal problems of the enterprises must be minimized by a system. As well as the existence policy, acts and regulations should be updated.

The study concluded that; without regulatory framework others PEs should not be privatized. Weak management, labour protest, lack of protection, supportive policy and monitoring from the govt. management and the employees are the considarable things before privatization.

*The benefits of privatization as perceived efficiency and productivity of the enterprises, reduction of financial and administrative burden of the government and promotion of private participation in the national economy and the reduction of political interference, increase in government revenue, investment of government revenue in social sectors, better quality of goods and services, reduction of corruption in the enterprises and prevalence of competitions.

### 2.3.3 Review of Thesis

"There has not been increased in production as expected in PES after privatization. Neither production nor employment has increased. Re-evaluation has not started yet. After privation by government independent studies have shown that the rules and regulations in privatized enterprises are written only on paper. Price of products has not been controlled and unemployment has increased" (Bhusal, 1999).

Some industries like "Bhrukti Paper Industry and Harishiddi Brick Industries have increased production and employment. But Collection leather of raw materials has been closed. There are not noticeable benefits on the other industries after privatization. The investment had increased but production didn't give compensation and laid off after privatization. The liberalization impact in Nepal is positive because the exports have mostly increased and double in the fiscal year 1991/92 after libaralization. So it is necessary for Nepal.

Bajracharya, (1996); the public enterprises are characterized by 1. Operating deficits cause a drawing on public budgets. II. Over staffing, iii. Heavy depends on domestic and foreign credit, and IV. Inefficient management and sub optional use of resources. These enterprises are generally not oriented toward profitability, cost control and efficiency. As a result, public enterprises have increased huge losses in almost all developing countries. Privatization of public enterprises can improve the returns on assets and services involved, depoliticized economic decisions, general public budget revenues through sales receipts reduce public outlay, taxes and borrowing requirements and reduce the power of public sector unions.

A public enterprise is established to attain certain objectives which should have harmonious and supportive relationship with national objectives for the development of infrastructure and regional development, social welfare, price stabilization and equitable income re-distribution, clearly specified objectives should be quantifiable as for as possible (Gyawali, 2005).

Almost all the PEs are suffering from heavy losses and poor working performance. All the PEs is facing same type of problems (Joshi, 1998). Such as;

- Absence of clear-cut objective
- Political interference
- Financial crises (problems)
- Managerial problems
- Insufficient capacity utilization
- Absence of sound pricing policy
- Excessive control
- Weak industrial relations
- Problem of public accountability
- Perfective project formulation

Privatization is not only the cure of the deteriorating economic condition of PES. Proper method of privatization should be adopted and government should provide proper guidelines and assistance for the success of privatization. And its objectives are; to analyze the existing situation regarding privatization policy and program in Nepal; to overview the privatization process in Nepal and its impact on national economy; to extract the challenges of the privatization and to find out its solutions as the recommendations (Luitel, 2004).

The process of privatization itself needs sustained improvements. There needs the creation of a transparent, accountable and representative system of regulating the enterprises before privatization. The involvement of employers and workers even before the turn around and privatization begin will ascertain the transparency. Furthermore, the development of a system of independent monitoring of the public enterprises by people other than the bureaucrats and politicians during the time bound period of turnaround would be more effective and reliable to restructuring before privatization. While moving for privatization the rights of Nepalese labors must be established by the policy of employing available Nepalese trained labors. The Indian labors should be considered only for the high skilled experts, which are not available in Nepal (Shrestha, 2002).

Shah, (1989) in his paper, *Privatization in Nepal: Concepts, Forms and Some Lessons* has reversed to the expansion of public sector enterprises in Nepal in the period 1956-85. In the past three decades of economic planning. They have been invariably closed as a deliberative police instrument for national development. Because of poor financial performance of these enterprises, the government had been injecting heavy dose of financial aid which had reached Rs 1.8 billion in the fiscal year 1988-89 equivalent to thirty percent of the total development budget of that year.

Rimal, (1996) made *A Case Study of Bhrikuti Pulp and Paper Mill Nepal*, findout BP & PNL is indeed a success story, which has largely fulfilled the objectives of privatization. Its capacity utilization has gone up form 66.7 percent . Daily capacity has increased from 13mt. to 88 mt in 1995; It was able to attract foreign investment and has acquired enhanced management, capacity and new production skills; Price has gone up substantially; The annual increment is the production and sales of the paper seen in the recent year were 146.86 percent and 138.6 percent respectively. The study recommended that priority should be given to the Nepalese bidders while awarding the contract even when the Nepali. However the margin program should be substiantial. A margin roughly 10 to 15 percent should be considered; privatization should not be just a means of granting, favour to handful of individual or monopolies; there should be an indepth study and proper homework with regard to possible options and modalities of privatization.

The economic and financial health of public enterprises are getting worse because the lack of adopting corrective measures to address very sensative and important issues, such as lack of continuous monitoring and evaluating of physical and financial progress of public enterprises, absence of regular and timely audit which generates possibility of financial indiscipline and its cover up (GON, 2002).

The return from government share and loan investment in public enterprises are not satisfactory. The performance indicators of public enterprises show that the financial effenciency and physical achievments are worshining day by day. The government has invested Rs. 76604.1 mil. Upto FY 2000/01 in 40 public enterprises of which Rs. 19339.4 and 57264-7 are share and loan investment respectively. But in Fy 2000/01, the government has only received Rs. 245.7 mil. from public enterprises as dividend, which is only 1.27 percent of total share investment. This ratio of dividend and investment was 2.03 percent in the year 1998/99.

These figures show the nature of insignificant government investment. Also the auditing status of public enterprises is not satisfactory. Altogehter only four public enterprises have completed audit up to Fy 1994/95. Similarly only, two public enterprises have completed audit up to 1995/95, there each have completed upto 1996/97 and 1998/99, whereas seventeen public enterprises have completed their audit upto Fy 1999/00. Only fourteen public enterprises have completed their audit upto FY 2000/01 (ibid).

Another study about privatization conducted by Venus Shakya in 1994 entitled, *Privatization of Public Enterprises in Nepal* (A case study of Harisiddhi Brick and Tiles Factory Ltd), indicated that privatization moves forward more rapidely when leader of developing nations make highly transparent political commitment to economic reform. Privatization does not come easily. Divestitude of state enterprise are not economically or financially viable enough to attaract investor and fear of foreign investor often permits government and parastatals, rendering some for achieving success. Privatization can range from out right sale to an private sector buyer to the tranfer of share to employees. Although there is no ideal model to fit in all situations. The prospects of privatization are great in the countries that have financial mechanism that facilitates privatization. Even highly developed nations are skill experimenting with privatization. Britain is the midst of a fullscale privatization program.

Fourty percent of its state sector had been handed over to private enterprises in the first eight years of its privatisation program in 1983/84.

The process of privatization should be divided into four basic area as the steps; process, valuation, the marketing and the sale it self. The most important role for less developed countries government in promoting privatization is creating as appropriate investment climate. The government should provide such environment that the investors must be free from the fear of government confiscation; the Nepalese privatization should focus the following objectives; (1) Corporate development (2) Development of capital. The share of the privatized corporations should be sold widely to the general public, putting the maximum ceiling of number of shares that a person can holds and the management should be separated from the ownership and the management of the industries and business should be in the hands of the professionals.

Another study about privatisation was conducted by Lakh Nath Bhusal in 1994. In his study entitled, "*Performance Study of the Nepalese Public Enterprises After Privatization and Liberalization with reference of Industrial Policy of 1992*" founded the following facts; Privatisation might have decreased the burden of HMG/N, but the consensus price index has increased by two fold. There is not given compensation facilities. Privatization is a good aspect of liberalisation and industrialisation policies but they only nominal, they are only written paper, and they are not use in behavior. Therefore, scarcities and ineffecientness of implimentation of their good aspects are there in Nepal.

It recommended that privatization of PEs should be concentrated to reduce pressure on the government budget and to increase industrial efficiency. However, political sensitivity dies not allow the government to move at a faster pace; A careful assessment of PEs has to be carried out before privatization then; privatization and liberalization are only the wave on river or ocean, which may bring better results for development countries like Nepal but may not be useful permanently. So cautious is very necessary in their implementation. In other words, the planner and implementing agencies should be very much selective in their working processes.

**2.4 Concluding Remark:**

In Nepalese context, industrial development started from private sector from the first phase of industrial development. But the initiation was not efficient than the economic thought changed from private to public sector. The thought worked not more than four decades. Than the privatization begain in Nepal. Some early reports showed the good performance of PPEs and recommended to privatize for other PEs. Many of the studies are conducted in the early period of privatization while the performance looks nice. However the lack of long-term study made unaware about the situation of the PPEs.  In long-term, it did not properly work, failed however the process is continueing. Why Privatization did not properly work in Nepal? What are the causes of its failure? And what to do other govt. burden PEs in this context? These are the unanswer question in this context. Therefore this study is relevent in the present changing scenario too.

# CHAPTER III

# METHODOLOGY OF THE STUDY

## 3.1 Research Design

The research design is based on descriptive method. The objective of a descriptive study, as the name implies, is to describe some phenomenon that the study has described the particular situation of privatization as completely, precisely, and accourately as possible.

## 3.2 Sample of the Study

There are more than 2 dozens PPEs in Nepal. However this study had selected only the six PPEs; namely Bhrukti Paper Mills, Harisiddhi Brick and Tile factory, Basbari Leather and Shoe factory, Nepal Film Development Company, Balaju Textile Industry, and Raw Hide Collection and Development Corporation Ltd as sample study according to the available data.

During the period of privatization the government made a weak policy about transparency of PPEs that made impossible to get primary data about the industries. In this context this study has done.

## 3.3 Sources of the Data

This study is mainly based on secondary data. Various research reports of academic fields, Ministry of Finance and other organizations' are the main sources of this study. The secondary data are collected from different publication like economic survey, performance of PEs and other publications of the Ministery of Finance for the study. Some other publications like newspapers, magazines, research journals, books, thesis and dessertations, and other, what ever available are also used .

## 3.4 Analytical Tools

This study has compared the performance of privatized PEs. For this purpose, it has used the percentage scale, tables, what ever is needed on the different stages of analysis on the study.

# CHAPTER IV

# PRIVATIZATION OF PUBLIC ENTERPRISES

## 4.1 Worldwide Trends of Privatization

The concept of privatization is not a new prespective in the world. Before a hundred year of American revolution, it started in 1976. Resurgence of economic liberalization in the 1970's economic models based on intervention role of the state come to be replaced by market oriented policies and development strategies. Privatization was since then felt as the key component of new market orthodoxy. Governments have been contracting with the private sector for the provision of services and infrastructures since the period of municiple governments. But the word privatization first time apperead in a dictionary in 1983. As explained by Fraser and Wilson the euphoria of privatization stared in the 1980s with "Thatcherism" in the United Kingdom and "Reaganomic" in the United States.

President Ragan (1980-88) was for free market economic to the world for making competitive and efficient enterprises. In the UK the Conservative Government coming in power under Margarate Thatcher in 1979, made a radical move towards privatization of industries and services. Accoding to Adam Smith Institute, the first privatization in the global record was conducted in1979 with privatization of Britain's state owned oil firm, British petrolium. But in South Asia altogether 255 industrial enterprises divested by Bangaladesh during 1976-81. Pakistan decentralised 200 rice, flour and cotton mills in 1977 (Mitel, 2004).

An impetus to privatization was also given by the largest ever international conference held in Washington D.C. in February 1986 hosted by US Agency for International Development (USAID) in which about 500 policy-makers, business representatives, economists and technical experts from 46 nations, including 42 developed countries taken part. USAID announced to establish a privatization fund to povide technical assistance for developing countries to undertake privatization. In 1994 some $80 billion in state owned enterprises sold to the private sectors around the world that brought the ten-year total some $486 billion, truly an unprecedented shift of power from government to author part of society (ibid).

Basically external pressure for privatization is highly significant in many of the less developed countries; (1) its structural adjustment policies, (2) Pressure from foreign investors, eminent institutions, (World Bank, Asian Development Bank) and other development financing agencies, and (3) Export obligations. Similarly financial crunch and deficit balance of payment are the major factors for privatization in less developed countries. And other pressures were effiency and low industrial growth rate (Gauri, 1991). According to a World Bank report on developing countries showed 86 percent of divestiture transaction during 1988-93 which accounted for more than five times the number of transaction in the previous eight years,1980-97 (Ganesh, 1998).

During 1977-2001, about 3 thousand 535 PEs were privatized in 100 countries that generated government revenue of over 1,127 billion dollars. The record showed growing numbers of privatization at the end of 1990s but slowing down afterwards. There is no encouraging story on the revenue generation front from privatization (Economic survey, 2004/05).

Between 1990-2000 more than US $700 billion in assets have been privatized around the world. About 40 percent of privatization occurred in emerging economies. Till 1996, only 10 percent of PE assets were privatized in the developing world and 30-40 percent of the assets in these enterprises have been privatized in the transitional economies. This shows that the developing countries possess a significient scope for privatization (Mishra and Bhat, 2002).

"There are two types of privatization which are Macro and Micro". Macro Privatization: Two generalizations can be derived for macro privatization. Firstly privatization tends to receive priority as the major Macro-investment in those countries where external pressures, unless they consciously accept the reality and adjustment their economies (as done in Thailand) or modify the reality by continuously redefining the relationship between the public and private sectors as done in Korea (Gauri, 1991).

Micro Privation:- micro privatization is conformed to the operational dynamics of PEs towards incorporation of efficiency at the enter prices level. Its aimed at; i) before performance of PEs given their repercussions on the efficient functioning of the economy and ii) resources mobilization and generalization of financial surplus Micro-Privatization therefore puts into picture the ideology of Privatization. The case studies under taken the regional countries indicate the prevalence of several instruments of privatization which can be said to constitute a micro privatization portfolio(ibid).

## 4.2 Problems of Privatization in South Asia

*Lack of commitment in the decision making level

*Politisization and Unionisation in privatization process

*Lack of proper investors

*Lack of commercial culture in private sector

*Lack of proper environment for the promotion of investment in private sector

*Lack of competitive market

*Increasing influence of government subsidies

*Non-productive assets and maximum debt dominance

*Increasing attaraction of private sector towards government's protection

*Corruption in government's engagement towards social protection and social welfare

*Lack of adequate resources, equipment, skill and ability

*Attraction towards interventionist policies such as a state intervention and centralized planning process

*Inertia that if economy is opened for the foreign investors than they will dominate the entire economy

*Lack of knowledge among politicians, policy makers, high level bureaucrats and intellectual community about market oriented economic policies (Bista, 1999).

## 4.3 A Need of Privatization for PEs in Nepal

It is generally felt that lack of commercial discipline; poor management practices, insufficient planning, poor organizational structure, and management are the responsible factors for the poor performance of PES in this direction. A report of high-level Public Expenditure Commission, 2005 states that total loan flown to the PEs through government has reached rupees 86 billion including Rs. 32 billion as an investment share. PEs suffer from excess manpower, old and obsolete plant and mechinery. They do not run under competive regime. The mission of establishment period is now changed. Billions of rupees are needed for restructuring to meet the public demand (Pyakuryel, 2006).

And the cumulative loss of Rastriya Banijya Bank is Rs.23 billion 86 crore while it has a profit of 1 billion 4 crore, it distributed bonus. Similarly NEA’s loss is 1 billion 78 crore but it provided incentives and overtime allowances to the staffs. The mission in privatization should not be to transfering public sector monopoly to private sector. In privatization, the aim should be to building competitive markets for the long-term rather than aiming at maximing short-term revenue (ibid).

Reducing the debt burden of government in the loss making PEs is the main objective of privatization in Nepal. Two PEs, namely Chandeswory Textile Factory and Nepal Cheuri Ghee plant were sold to private sector in the sixth plan (1980-85). Similarly others 12 PEs were processing for privatisation in 1985 (Appendixe 3). But it never meterialised. Privatization process has countineously forwarding till now.

The seventh five year plan brought the policy of privatization. In March 1988, there are number of seminars and talk programmes as well as Lyle Hall Riche of USAID made a survey on possibilities of privatization. The privatization cell extablished under ministry of finance to help the government for privatization process in 1989 (Mitel, 2004). It was an alternative way to operate the PEs after the restoration of democracy sytem (Appendixe 4).

## 4.4 Objectives of Privatization in Eight Plan

The eighth plan (1992-1997) specified the following objectives of privatization;

(a) Enhancing the efficiency and competitive ability of SOE with increase production and production and productivity alone with promotion of co-operations.
(b) Program is to increase efficiency in both state owned enterprises (SOES) to be and not to be privatized in future should be initiated and reorganization for better management carried

out. Before the enactment of privatization bill in 1991 for the first phase program Government has issued a white paper on privatization policy, which has outlined the board.

Objectives of privatization as follows; (1) Reduction of managerial and financial burden as the government. (2) Promotion of functional expertise to enhance productivity and output. (3) Promotion of the private sectors role in individual investment.

Nepal formulated industrial development program with its first industrial policy of 1962 to provide incentives to industrial development. The policy clearly outlines the govt. position and priorities. This policy had to be revised in 1965 and again in 1967 and 1981 to mitigate distortions and to encourage industrial growth.

The 1992 policy is a major departure from the past policies. It embarked upon encouragement of economic liberalization, mitigation of distortions and creation of basic for sustainable industrial growth through allocate efficiency. The emphasis sifted to enhanced contribution of industrial sector to the general economy by increasing efficiency and productivity.

This new policy of 1992 has emphasized in reduction of licensing interventions to facilitate entry and to promote competition: more liberal income tax incentives and facilities for both domestic and foreign investors to promote industrial investments; and setting up of new or strengthening of existing supporting institutions.

The objective of the privatization programme as enshrined by the act are as follows:

(a) To increase the productivity through the enhancement of the efficiency of the state owned enterprises,

(b) To mitigate the financial and administrative burden to the government, and

(c) To achieve the all round economic development of the country by promoting wider participation of the private sector in the operation of such enterprises.

For implementation of the privatization policy, Nepal government constituted a commettee in accordance with the privatization Act, 1994/2050 (Appendix 5).

The Functions of the committee were as following:

(a) To conduct study or research in order to formulate privatization programs;
(b) To recommend programs and priorities of privatization to the government;
(c) To require evaluation of the enterprises and to recommend the government in the process of privatization;
(d) To remove hindrances faced in implementing privatization programs and maintain coordination;
(e) To follow-up the decisions and agreements relating to privatization and cause to do so;
(f) To constitute sub-committee, as may be necessary, in respect of privatization; and
(g) To perform or require to perform other works, if necessary, in respect of privatization.

A privatization cell has been established under the ministry of finance which works as a secretarat of the committee.

## 4.5 Recent Thoughts About on Privatization

Economic thoughts are guided by the states' political systems in the world. Basically democratic countries follow liberalized economic thought that emphsis on private sector paticipation on economic activities whereas non-democratic countries (Communist and Authoritarian etc.) follow sociallist and rigid thought. But these thought are not separately used in those countries. Because there are some public enterprises in democratic countries like America, Britain, India, Nepal etc. As well as, there are also some privatized industries in Communist countries like China and so on. In this context Nepales political parties kept their views on the following ways about on privatization process in Nepal.

## 4.6 Overview of Workshop Papers

In an effort to strike a national consensus on privatization of public enterprises, views were sought from four major political parties. They are Nepal communist party (United Marxist and Leninist, Nepali Congress Party, Rastriya Prajatantra Party and Nepal Sahbhavaba Party). All these papers were presented in the workshop on need of conceptual and policy consensus among major political parties on organizational privatization in the course of this privatization project in Kathmandu on 28, February 1997. Highlights of these papers are briefly dwelt upon in the following lines.

### 4.6.1 View of Nepal Communist Party (UML)

The view of this party is contained in the comprehensive paper, Analytical Review of Privatization in Nepal (in Nepali) submitted by Hon. Bharat Mohan Adhikari, former Finance Minister and Executive Member of the party in the workshop on 28, February 1997. This party feels that privatization is not an essential feature for development of the country. It is trusted upon country by the World Bank institutions in the name of liberalization of the economy and as a part of the structural adjustment loan. At the same time, it also acknowledges that privatization enhances the efficiency of units. So, if any PE is operating in profit and it is an indication of business efficiency, there is no need to private such units. Thus, instead of taking privatization as a general feature of linear economic policy, it is to be visualized as isolated economic policy to privatize some of the PEs if they,

*Reduce government expenditure, but care should be taken not to include PEs having social responsibility and working for human welfare,
*Increase government revenue,
*Increase GDP by enhancing production, investment and plant capacity,
*Do not encourage monopoly and /or cartel after privatization,
*Give adequate share of ownership to Nepali citizens and,
* Do not result into unusual price rise.

Implementation of privatization policy should not stop operating of them PEs and should not stop establishing new PEs in case there is needed. In view of the features of PEs for the purpose of privatization as detailed out above, PEs are classified into following categories;

1.PEs running in profit-under the competitive situation and under the situation of monopoly, later category calling for privatization,
2.PEs running at loss-due to government price control and in situation without price control, later category to be subjected to privatization,
3.PEs with social responsibility, not to be a candidate for privatization,
4.PEs with complete business objective,
5.PEs dealing with the products produced to be sold by private sector also, can be candidates for privatization if running as loss,
6.PEs dealing with goods and services of strategic importance, not to be a candidate for the privatization, and
7.PEs likely to have monopoly feature after the privatization also cannot be a candidate for privatization. Once the PEs are identified for privatization, process, and terms and conditions have to ensure;

*Maximum participation of the general public, there by limitating the promotes share from 70 percent to just 51 percent,

*First priority to the employees of PEs in the sale of shares and then only to the national capitalists and to the foreign investors. National investors should be given first priority even if price is less by 5-10 percent,

*That only practical divestiture be also made possible thus in the process promoting joint venture between private and public sectors,

*Proper assesment of property at the existing market rates,

*The immediate payment and not the payment in installments,

*The employment of existing employees in case of overstaffing, assess the number of such over-staffing before privatize and allow them to drop for the rest of others. They should not be fired without sufficient justification at least for years.

*Create a special fund from the sales proceeds of the PEs and spend them in special development programmes.

*The interes of consumers by not allowing the price increase beyond an agreed limit.

*Monitor the privatised PEs to understand if they are operating as per terms and conditions and at the same time see them operating within competitive framework.

This paper dwelt elaborately upon the reasons for and classification of PEs for privatisation, some confusion can still be observed. Reasons for privatizing a particular PE are not necessarily well rejected in the classification of PEs for privatisation purpose. A PE running in profit in competitive atmosphare could not be a candidate for privatisation, if we follow the above classification.

But it can also be a candidate for privatisation, if in privating it, revenue and /or employment can both is enhanced. So, there is an ample room for arguments both in favour and against even within this framework. If increase in GDP is to be brought into the picture, thing would be even more complicated. There are PEs such as in Nepal Bank which need not to be privatised if its profits earning is to be considered. But its privatisation is likely to result into higher level of GDP due to enhanced effenciency and hence may call for privatization. So we are still in a quagmire.

If we are to look forward and backward linkages into considaration for incorporating economy wide implecations of privatization of any PE, situation could be even more different. Rather than PEs own impact upon variables like employment, revenue and GDP, implications through backward linkages could be very much immense.

Thus instead of bringing too many variables into considaretion, which may result into confusion due to lot of possibilities out of different combination. It is worthwhile to identify one or two propositions to facilitate the privatisation process. Hence, taking both social resposibility and efficient use of resources into consideration, following propositions can made; 1. Private any PE in which private sector shows interest; 2. In order to safeguard the special interests (for fulfilling social responsibility) the government set the standard and quality of the products, and in certain cases the price level also. 3. In certain product of strategic importance, let government assume a more direct role.

### 4.6.2 View of Nepali Congress Party

The view of Nepali congress party is contained in the the paper Privatisation of Public Enterprises; view of Nepali Congress Party (in Nepali) sent by the party and presented by Dr. Bishwambhar Pyakurel in the workshop on 28, February 1997. Nepali congress party showed a belief in the efficient use of resourses for the broader welfare of the people. If only efficiently used any of the sectors should be allowed to involve in the economic activities- be it public, private and/or nongovernment sector. So, if the private sector can use resources much more efficiently and productively, the government can afford to play the role of facilitator by guiding the private sector and working for the macro-economic stability. By creating an atmosphare for active private sector participation only can attract the required domestic and foreign investment and privatization is a step towards achieving this end. So, this party has also shown its concern for enhancing national income among others through privatization of public enterprises.

For the propose of identifying PEs for privatisation, factors like the nature of business of PEs under considaration, its future potentials, existing involvement of private sector in such business. There willingness to make further investment, requiredment of further investment, technology transfer, requirement of modern management system, need of the consumers, present economic situation etc. need to be taken into considaration. These factors need to be clearly speltout in the privatization process as such. Nepali congress party places emphasis upon following aspects in the process of privatisation;

*Transparency and accountability

*Forms of privatization (dissolving, total sale, management, contract, leasing, partial sale etc), to be spelt out clearly and transparently.

*No displacement of existing employees as far as possible, if at all need to be displaced, adequate compensation need to be arranged.

*Clear statement on the provision for foreign investment, to be particularly emphasized, if heavy investment and/or new technology are required.

*Valuation by assessing asset value, business value, image of PEs under considaretion.

* Criteria for selecting investors, on the basis of proposed management plan of the investors, their credibility and experiences, financial position, management capacity etc.

*Terms and conditions for the employees who would continue working.

*Regulation to stop monopoly situation.

*Effective monitoring, to see if the contract obligations are followed.

*Terms and conditions of the contract etc.

This party feels that existing process incorporations many of these features and they just need to be stronged and public need to be educated.

### 4.6.3 View of Nepal Sadbhabana Party

The view of the party on privatisation (in Nepali) sent by this party containing its opinion on privatisation is presented by its general secretary, Mr Bishonath Prasad Jha on 28, February 1997. It feels that privatization has to an inherent features of the economy in global context. It suggests the formation of a commission costing of economists, other intellectuals, representatives from political parties, staff members, representatives of the private sector etc. to prepare a white paper on the privatization process. Such commission would explain the reasons for the privatizatoin of any particular PE.

### 4.6.4 View of Rastriya Prajatantra Party

The party position paper on privatisation view of Rastriya Prajatantra Party on liberlisation and privatisation (in Nepali) is presented by Hon. Rabindra Nath Sharma, General secretary and Ex-finance Minister on 28, February 1997. This party claimed the liberlization to be one of the three basic foundations of the party. Its economic edifice is built around this conceptulaization. Privatization is the inherent feature of the liberal economic policy. It feels that the government is not a producer. Producer are farmer and labourers. So government is to concertrate its efforts only in those area where such producers do not get involve. This party claims explicitly that activating other sectors does not necessarily mean to weaken the government. By recognizing the duality in the economy in terms of rural and urban economies, it seek much more direct government role in rural economy.

The party emphasizes following element in the process of privatization;

*Privatisation of enterprises having a tendency of monopoly should not be encouraged.

*Installment payment should be discouraged.

*Proper valuation needs to be made.

*Public share distribution through stock market need to be encouraged for the boarder participation of the general public

* Process need to be transparent.

This party feels that there should be a clear-cut policy on the use of sales proceeds from the privatization of public enterprises. Privatization reduces the fiscal burden of the government and for that matter it lessens the need not domestic borrowing. But, sales process should not be spent on meeting the regular expenditure of the government. They should be played back to the economy through proper investment.

### 4.6.5 Common Stand of the Views

There are more agreements than disagreements in the privatization policy. Disagreements are more concerned with model operating and operational, aspects and more so with the ways public enterprises were privatised so far.

For one reason or other, all the major political parties realized a necessity of privatization that policy-either as an inherent component of boarder private sector participation in economic activities and liberal economic policy or as a mechanism to promote market forces for enhancing allocative effiency of resources. From both these mechanisms, it is seen as a tool to promote economic growth. Through the process of privatisation, national income is likely to increase due to;

*The release of the fund which otherwise would have to be spent on running less efficient and/or loss making public enterprises.

*The Enhancement of efficiency of the units under considaration.

*Further promotion of backward and forward linkages.

Annual budgetary allocation for running the sick and ineffieient PEs can be more appropriately and more productively used in other social and infrastructure sectors. So the annual budgerary allocation which otherwise would have been made for PEs can be allocative for basic social and infrastructure programs which are likely to be helpful to promote labour productivity of the general public.

As all parties showed a concern for the apparent, direct and possible welfare loss due to the withdrawl of the government from the economic activities. They can be more than compensated by increasing budget allocation in the sectors as explained above and by spending the sales proceeds froms PEs directly on some compensatory package programs for the employees of concerned public enterprises.

Efficient use of resources after the privatisation can be ensured only where there is a competitive environment and market forces are permitted to their roles. In this respect also, there is a general agreement that monopoly and cartel situation should not prevail after privatisation. If likely to prevail, government should have control over price level.

Other point of agreement is in relation to the concern for employees working in the PEs. All the parties feel that the existing employees should not be laid-off if such manpower is required. In case of staff not required, adequate compensation need to be given and government helps them specially the workers find alternative jobs. Besides, all parties are in favour of securing equality participation for the employees also. Likewise, there is an agreement that preference should be given to national investors.

### 4.6.6 Arguments in Favour of Privatization

Following arguments are brought forward in favour of privatisation:

*Efficient use of resources under private management- a tool of management. *Resources use is generally found efficient for private enterorises driven by profit motive in the competitive atmosphare.

### 4.6.7 Arguments Against of Privatization

Arguments against privatization are made along the following lines: *Government should not shy away from public and social responsibility. This argument essentially covers the social and infrastructure sectors along with the responsibility of making basic goods and services available to people to people by the state itself.

*Privatization is likely to to weaken the government sector by holding nothing to itself. This argument assures that government would be a silent spectator in the whole development process. it is not necessarily so and government would have to play a role of watchdog.

*Services through market mechanism not be accessible to poor. Once again this argument attempts to cover basic goods and services some sort of subsidization from the government.

*Market failure would result into artificial price rise: It has got two components one is artificial price likely to be resulted from the tendency of carteling and monopoly, and second is likely price rise due to the absent of subsidy element in the supply constrained market situation.

*Privatization is likely to transfer public capital in the hands of few.

*in the process of privatization, rent seeking activities are likely to be promoted and the interests of employees jeopardized.

Arguments clearly show the connection for the protection of interests of the poor and inequality. Thus privatization raises some concerns with regards to the interests of the employees, delievery of services. Goods produced by them and their quality, pricing specially when goods under consideration happen to be public utilities, interests of customers specially when products under consideration serve the poorer segments of the society etc.

In order to take care these concerns following measures can be taken;

*Training to employees, for enhancing productivity and income and to make them acceptable to the new management.

*Securing certain portion of shares for backward and/or low-income groups.

*Identification and/or formation of regulatory authority for maintain standards and protect consumers in terms of privacy, availability and quality of services and to ensure the healthy development of the industry.

*Vender development programmes, for promoting backward linkages.

*Share to employees

*Managing sources and funding.

A part from these measures, there is also need to dismiss the misconception that by privatization, government is shying away from its social responsibility. in fact this process releases the fund for the purpose of more direct spending on social and infrastructure sectors.

The issue of inequality should also be seen in the proper perspective. The Nepal communist Party(UML) also talks of promoting national investors. Management involves not just the investment from few investors; it also involves the management of risks and factors of production for achieving desired results. And this risk bearing capacity at the high investment level can be expected from the unequal distribution of income at the higher income brackets. So such unequal distribution of income at the higher income brackets results into investment, employment, income generation and overall economic development.

## 4.7 Problems of the Privatization Programme in Nepal

The privatization process in Nepal suffered several problems. Those could be pointout as; ignorance of the people; social problems; employee-related problems; lack of investor interests; less developed capital market; lack of confidence in government transaction; underdeveloped corporate culture; ill health of public enterprises; delaying problem; small size of market; lack of monitoring and evaluation system; the privatization modality, political instability; formation of privatization committee; privatization fund; sales proceeds; adjustment problems; over capitalization; buck shifting; bid selection criteria etc,(Cell 1999)

# CHAPTER V

# PRIVATIZATION OF PUBLIC ENTERPRISES IN NEPAL

## 5.1 Nepalese Modalities of Privatization

A success of privatization programme is a complex exercise. There are different modalities of privatization and the method choosen and process applied can make all the differences to the successful implementation. The conditions of a country and the enterprise should be well before making privatization decision and choosing privatization method. It is important that privatization plan need to be well through. The privatization programme is clearly on objectives and priorities of government. The objectives should be reviewed in high of costs, benefits, threats and opportunities for the economic as a whole. The constraints like political, strategic, social, economic and legal should be identified while specifying the objectives. The Privatisation Act, 1994 provides six broad options for privatization namely; selling of shares, formation of coopration, sale of assets and business, leasing of assets, management contracts and other modalities deemed appropriate by the governement.

### 5.1.1 Sale of Shares

This approach is being tried in 10 out of 24 privatised enterprises in which 65 percent to 70 percent share sold to the straight management team and rest to public and employee. 10 PEs has been privatized through this approach. Those are Nepal Film Development Company, Balaju Texttile Industry Ltd. Raw Hide Collection and Development Corporation Ltd. Nepal Bitumen and Barrel Udhyog, Nepal Lube Oil Ltd., Nepal Foundry Industry, Shree Raghupati Jute Mills, Nepal Bank Ltd., Butwal Power company, and Nepal Tea Development Corporation.

### 5.1.2 Lease Contract

Privatization of PEs has not done through lease contract, leasing, confessional agreement till now. However, Bhaktapur Brick Factory has privatised through leasing only land but other assets were sold.

### 5.1.3 Liquidation/Dissolution

The government liquidated 7 industries, 2 companies have dissolution; Agriculture service Centre, Cottage and Handicraft Emporium, Coal Limited Hetauda Textile Industry and Nepal Transport Corporation i.e. Discounted Co., Birgung Sugar Factory and Agriculture Tools Factory Ltd.

### 5.1.4 Management Contract

The government did not follow it to the privatization on process, yet.

Privatization is an umbrella term, which encompasses all methods or policies implemented to increase the role of market forces within the national economy. In this context, the concept of privatization covers several arrangements to deliver goods and services by private sector.

## 5.2 Status of Some Privatized PEs

In Nepal, historically 61 numbers of public enterprises were involved with own different legal status and established as public corporation, companines, bankers etc. They have been playing significant roles under the government's development policy in Nepal.

But nearly half of the PEs were privatized during the peroid of 1985 to 2006. "During the FY2005/06 out of thirty six PEs, 17 operated at profits while 19 incurred losses. 21 PEs are expected to earn profits and remaining 15 will incur losses. The estimated operating profit for the fiscal year 2006/07 is Rs.7.80 billion. Since the figures for targeted operating profit or loss for FY 2007/08 could not be obtained from some PEs, the estimation of overall targeted operating result for that period is not possible" (MOF, 2008).

Monitoring of the post privatization status of privatized institutions have not been carried out. Some corporations have closed their shutters after their privatization and remaining those in operation also have not been able to increase their investment and production, resulting in reduction of employment opportunities. In this process, a task force was created to conduct studies on actual situation of PEs and has submitted its reports on issues seen in the privatization with their possible time contextual solutions to improve government owned and privatized PEs (MOF, 2011/12).

### Table-1 Status of Some Privatized PEs

| SN | Name of the company | Year of the Privatization | Method of privatization | Sales processed (Rs.'000) | Proportionate share Mgt. | Emp. | Public |
|---|---|---|---|---|---|---|---|
| 1 | Bhrukti Paper Mills (BPM) | Oct,1992 | Asset and business sale | 229800 | 70 | 5 | 25 |
| 2 | Hari siddhi Brick and Tile factory (HBTF) | Oct,1992 | Asset and business sale | 226900 | 70 | 5 | 23 |
| 3 | Basbari Leather and Shoe factory | Mar., 1992 | Asset and business sale | 22400 | 75 | 5 | 25 |
| 4 | Nepal Film Development Company(NFDC) | Nov, 1993 | Share sale | 64662 | 51 | 5 | 44 |
| 5 | Balaju Texttile Industry(BTI) | Dec, 1993 | Share sale | 17716 | 70 | 5 | 25 |
| 6 | Raw Hide Collection and Development Corporatior | Dec, 1993 | Share sale | 3990 | - | - | 100 |

MOF Cell,1999.

Among the closed corporation the following six are also included. However many of the PPEs were operating in a good situation after the short period of privatization. The table 1 shows the name of six companies which were privatized in between 1992 to 1993. Among them first three were privatised through asset and business sale process and remaining three were privatized through share sale process.

According to an under secretary, Ministry of Finance, Basu Sharma Paudel, these privatised PEs had collapsed but there is no any data about these industries after the collapsed condition in the ministry. Because the process of privatization did not make transparent for the privatized PEs. Therefore, a group of parliametry committee did not get information from some of the privatized public enterprises while the group was doing study about Nepalese

PEs conditions (Public Account Committee, 2049). The three things are common in all these enterprises. All of them have increased the prices of the products and total expenditure and borrowings have also gone up. The increments of the price by all the companies indicate that the price of public enterprises were heavely subsidized. The price of the products did not cover the real cost. Consequently, all of the privatized companies increased the price of the products by covering the real cost and profits per units after privatization (Cell, 1999).

### 5.2.1 The Short Time Changed Status of Privatized PEs

Government of Nepal initiated the process of privatization, liquidation and termination of PEs in 1993 with the objectives of raising the private sector's productivity through their skills enhancement, ease the government's financial and administrative burden, increase the private sector participation, and ensure effective and efficient delivery of goods and services.

**Table-2 The Short Time Changed Status of Privatized PEs**

| Privatization Enterprises | Investment | Production | Sales | P.div./T.IMP. | employment | Borrowing | Profit/loss |
|---|---|---|---|---|---|---|---|
| BP&PNL | Increased | Increased | Increased | done | Increased | Increased | Loss |
| HB&TF | Increased | Increased | Increased | done | Minor change | Increased | Loss |
| LBS&TF | Increased | Decreased | Decreased | Not done | decreased | Increased | Profit |
| NFDC | Increased | Increased | Increased | done | Decreased | Increased | Profit |
| NLOL | Increased | partial change | partial change | Partially done | Decreased | Increased | Profit |
| NB&BU | Increased | Increased | Increased | Done | Minor change | Increased | Profit |
| NFI | Increased | Increased | Increased | Done | Decreased | Increased | Profit |
| SRJM | Increased | Increased | Increased | Done | Increased | Increased | Loss |
| BTI | Increased | Decreased | Decreased | Done | Decreased | Increased | Loss |
| BBF | Decreased | Decreased | Increased | Done | Minor change | Increased | Loss |

MOF Cell, 1999.

As a result many of the privatized PEs have increased their investment, production, sales, employment and borrowing but only 50 percent of the PEs have got profits that the table 2 shows. The table shows only investment increased could not improve the production and sales in case of LBS&TF. But the company got the profit.

### 5.2.2 Sri Bhrukti Pulp and Paper Nepal Ltd. (SBP&PNL)

In 2039 BS, SBP&PNL incorporated as a PE with Chinese technical and financial aid to produce papers in different sizes. Its capacity was significantly extended that it produced 13 MT per day with the investment of Rs.82.20 million. It privatised in 2049 BS.

**Table-3 Sri Bhrukti Pulp and Paper Nepal Ltd. (SBP&PNL)**

| Iteams of performance | Unit | Before Privatization (Fy 2046/47) | After privatization (2052/53) |
|---|---|---|---|
| Total Expenditure | Rs in Million | 82.20 | 320.40 |
| Production | MT | 2969 | 7659 |
| Sale | MT | 2947 | 7038 |
| Capacity Utilization | % | 76.1 | 27.20 |
| price | PTM | 29769 | 48367 |
| Employment | Nos. | 280 | 1078 |
| Export | MT | _ | 217 |
| Borrowings | Rs in Million | _ | 708.40 |
| Tax | Rs in Million | _ | 23.50 |
| Profit/Loss | Rs in Million | 12.00 | 5.88 |

MOF,Cell 1999.

The table 3 shows that its sales was 2947 MT per year while it has used its capapcity only by 76.1 percent with 280 workers. It was run with profits. The privatization impact was positive while the investment increased nearly by four fold, Rs.320.40 million in the company. Than it produced 7559 MT per year and sales only 7038 MT only. It added number of workers and reached 1078 but its profit did not increase as the ratio of investment. It was only Rs. 5.88 millions. The table also shows every item is increased after privatization with out capacity use and profits.

Before privatization its products consumed in local markets but after privatization its ambitious project targeted to the indain market. In the mean times the extension of receession in the international market and dumping price fells sharply. Than the products of the company did not compete with other international products in the market place. According to the company, the government's insentive towards the problems faced by the domestic products; e.g. the costums at the rate of maximum 5 percent is levied on import of newsprint and there are no local taxes and VAT on it while the import of raw materials and chemicals required for paper production. It paid high customs duty, VAT and other taxes. According to the management, the govt. must give incentive as a soft loan, tax exempetion etc. to protect the local industries. It had debt burden by Rs.708.4 million in FY 2052/53 (Cell,1999).

As a conclusion, the big amount of loan, no subsidies, market problems, lack of skilled man power, hicking price of raw materials and new plants, and the strike of labour in the company are the main causes that made close to the company forever.

### 5.2.3 Harisiddhi Brick & Tile Factory Ltd. (HB&TF)

HB&TF was incorporated in 2026 BS. As a public enterprises with Chinese technical and financial assistance. It produced bricks and tiles. Before privatization its performance was positive. Its investment was 22.70 million rupees. Its production was 709000 units of tile and13327000 piece of bricks in2046/47. After privatization the production of tile 1720000 units and 34762000 bricks that shows the higher increment in production in 2052/53. But there is no production now.

Similarly after privatization total sale incresed by nearly two fold but employment was not increased as invetment, production and sale. There were only 593 employment after privatization and it was only 578 number before privatization. But the prifits was increased rapidly as Rs.20.28 million in 2052/53 while it was only Rs.0.11 million before privatization. It was privatised in 2049/50 (Cell,1999).

**Table-4 Harisiddhi Brick & Tile Factory Ltd. (HB&TF)**

| Iteams of performance | Unit | Before Privatization (Fy 2046/47) | After privatization (2052/53) |
|---|---|---|---|
| Total Expenditure | Rs in Million | 22.70 | 66.87 |
| Production Tile | '000Pi. | 709 | 1720 |
| Production Bricks | '000Pi. | 13327 | 34762 |
| Sales | Rs in million | 21.37 | 41.49 |
| Employment | Nos. | 578 | 593 |
| Borrowings | Rs in Million | _ | 181.89 |
| Profit/Loss | Rs in Million | (0.11) | 20.28 |

MOF, Cell 1999.

Capacity utilization of the company was not very optimistic while the economic sluggish and consequently the construction works were slow. Than the demand of its both products, bricks and tiles was declining. In the mean time more competitors have entered in the market. The cost of production increased termendiously, while the company had to pay the farmers by 7-8 times. The cost was reach from Rs. 1800 to Rs.14700 per ropani. Similarly the price of coal has also gone up sharply. The company was suffering from high debt. In was Rs.181.89 million in FY 2052/53 (Cell,1999).

The sluggish economic, highly competitive market, price hicking of raw materials and incriment of the rate of interest of loan, lack of quality product by new plants are the major causes to close the company.

### 5.2.4 Leatherage Bansbari Tannery and Shoes Factory

LBT&SF was incorporated in 2020 BS under the technical and financial assistance of Chinese government. It produced varieties of shoes, and processed and semi processed leather. After privatization it only produced wet blue leather. So that its production have declined.

Its investement was 46.58 million rupees in FY 2046/47. It yearly produced 105000 pair of shoes, processed 674000 squire fit and semi processed 1062 squire fit leather in the fiscal year. It sales of shoes were Rs.21.15 million and leather sales were Rs.21.62 million. After privatisation leather sales was increment and reach Rs.76.19 mil. from Rs.21.62 million. Similarly the capacity utilization was increased and reached 80 from 59 percent and number of labours were decreased and the profits amount also decreased from 4.87 million to 0.57 million. But the amount of tax is improved by Rs.0.73 million.

**Table-5 Leatherage Bansbari Tannery and Shoes Factory(LBT&SF).**

| Iteams of performance | Unit | Before Privatization (Fy 2046/47) | After privatization (2053/54) |
|---|---|---|---|
| Total Expenditure | Rs in Million | 46.58 | _ |
| Production shoes | '000 pairs | 105 | |
| Processed Leather | '000 sq.f. | 674 | |
| Semi Processed leather | '000 sq. f. | 1062 | 2689 |
| Sales shoes | Rs in million | 21.15 | |
| Sales leather | Rs in million | 21.62 | 76.19 |
| Capacity Utilization | % | 59 | 80 |
| price | Per sq.f. | R.s 16.15 | Rs 29 |
| Employment | Nos. | 451 | |
| Export | MT | _ | _ |
| Borrowings | Rs in Million | _ | 20.14 |
| Tax | Rs in Million | - | 0.73 |
| Profit/Loss | Rs in Million | 4.87 | 0.57 |

MOF, Cell 1999.

The total investment declined in the subsequent years of privatization; reached from Rs 46.58 million to Rs. 4.67 million in FY 2046 to Fy 2051/52. Than the production was not optimistic. It has stopped producing proccessed leather and shoes. As a reasult negative impact on production, sales and product. In this condition there can't be any pre- and post-privatization comparision regerding the shoe and processed leather production. Only one production, blue leather product was also decline year by year that 2689170 sq. ft to 23.3000 sq. ft. in FY 2053/54 to FY 2054/55.

The management blame to the government that it did not provide money to operate the shoe manufacturing plant. Many employees left the company while it shift from Kathmandu to Kapilwastu district. Then it faced lack of skilled man power. Its borrowing was increased one side and the other side the average loss increased; borrowing was Rs. 17.90 million (2054/55) and loss was Rs.11.29 million to Rs.8.2 million in FY 2046/47 to 2047/48. (Cell, 1999).

The declined investment, unable to operate shoe manufacturing plant, self retirement scheme made all trained manpower retirement, transfore of the company capital city to hazard village made remain skilled manpower to left the company, established of unutilized shoe plant, huge stock of unsold shoes, no expansion of capacity, spent on golden handshake retirement before company tranform, lack of improved technology, heavy lossess and a huge amount of loans are the main reasons of its close.

### 5.2.5 Nepal Film Development Company (NFDC)

NFDC was established as a PE with an objective of providing healthy entertainment for general public in 1971. Its total investment was 7.80 million rupees in FY 2046/47. In that year it produced 2 documentry, 8 news reel and 1 story film with in profits. After privatization it produced only story film in 20 number in 2054/55. It was privatized by 50 percent share sales. Then its profits decreased that reach from Rs.0.61 million to Rs.0.25 million in the fiscal year.

**Table-6 Nepal Film Development Company (NFDC)**

| Iteams of performance | Unit | Before Privatization(Fy 2046/47) | After privatization (2054/55) |
|---|---|---|---|
| Total Expenditure | Rs in Million | 7.80 | _ |
| Production | | | |
| Documentary | Nos | 2 | _ |
| Films | Nos | 8 | _ |
| News Reel | Nos | 1 | 20 |
| Story Film | | | |
| Sales | Rs in million | _ | 24.67 |
| Capacity Utilization | % | _ | _ |
| Employment | Nos. | _ | _ |
| Borrowings | Rs in Million | _ | 3.51 |
| Tax | Rs in Million | _ | _ |
| Profit/Loss | Rs in Million | 0.61 | 0.25 |

MOF, Cell 1999

There are mainly three reasons to close the industry; employees problem (lost of confident; resigned skilled workers, lack of pemanent workers, reduced salary, mentally humiliation and job insecurity), increased total borrowing and price hicking.The declining capacity utilization (55 to 45 percent), employees (100 to 55), the total debt is Rs. 3.51 million and declining profits (Rs.8.67million to Rs. 0.25 million) in FY 2049/50 to 2054/55 (after privatization) is the major reason of its closed.

### 5.2.6 Balaju Textile Industry (BTI)

BTI was established as a public enterprises in 2026 BS. It produced mainly Puplin Jeans It was privatized in 2050 BS. Than it stated to produce shop towel because of marketing problem.. Its total expenditure was Rs. 2.25 million before privatization in 2048/49. And production was 761971 meters in that fiscal year. But sales was only 696275 meters. There were 172 employers with profit by Rs. 2.74 millions.

#### Table-7 Balaju textile Industry (BTI)

| Iteams of performance | Unit | Before Privatization (Fy 2048/49) | After privatization (2054/55) |
|---|---|---|---|
| Total Expenditure | Rs in Million | 2.25 | 9.25 |
| Production<br>Popin<br>Shop-Towel | <br>Mets<br>Mets | <br>761971<br>_ | <br>_<br>538198 |
| Sale<br>Poplin<br>Shop-Towel | <br>Mets<br>Mets | <br>696275<br>_ | <br>_<br>785625 |
| Export | Mets | _ | 785625 |
| Employment | Nos. | 172 | 75 |
| Borrowings | Rs in Million | 0.29 | 5.74 |
| Tax | Rs in Million | _ | 0.01 |
| Profit/Loss | Rs in Million | 2.74 | 0.20 |

MOF, Cell 1999.

After privatization its expenditure was increment reached Rs.9.25 millions in 2054/55. Its towel shop production was 538198 meters but it sales was 785625 meters. The data shows that the extra part of production was the remaining part of last year. All the sales were export. But the profits was decreased and reached only Rs. 0.20 million. At the privatization time, it lost employees that it was reduced from 172 to 75. Than 90 employees took voluntary retirement. Likewise other 45 employees took retirement in 2055 BS. The management also was very discontent with the permanent staff. It said that they were more political, undisciplined and dishonest and they spoiled work culture in the company.

Likewise the borrowing of the company increased year by year. It was 5.74 million in FY 2054/55. However it had paid Rs.17723 VAT in the year while it loss Rs.o.20 million. At that time the company was producing 1 thousand Kgs of shop towel while there were 34 thousand kgs annual export quota. The company had not paid to the government Rs.3,65,600. Frequently curtailment of US quota, high competition, lack of capacity utilization and expantion, voluntary retirement without incentive and again retirement, employees problems (more political, undisciplined /dishonest workers; work culture spoiltors), old style of production, heavy lossess, careless management, unable company are the major reasons to close it.

### 5.2.7 Raw Hide Collection and development Corporation (RHCDC)

RHCDC Ltd was privatized in 1993. Its basis functions were to collect raw hides and sells them nationwide, especially to BLSF. After the privatization of BLSF the company was free to sell raw hides to anywhere. While privatization, 54 percent of the government share was sold for the costumers of the company. Not more than 17.1 percent of share was availabe to every shareholder. But the company did not run later mainly two reasons; (a) Lack of unity among the shareholders and (b) Changed on government policy; this was monopolized business before privatization. But after privatization the government changed the law and allowed the District Development Committees to allow the local contractors to collect the raw hides within district and levy local tax on it (Cell, 1999).

**5.3 Concluding Remark**

The government of Nepal did not make proper policy and methods to warrenting the long life of PPEs. However most of the PPEs were doing well enven those enterprises which were not perfoming absolutely well, have shown improvements in terms of this of that factors. But in long term those factors were useless for the existance of those companies. So that the PPEs failed in long term. The major reasons of the failure are as; no uniformity on privatization; most of the PPEs operator are looser; lack of efficiency, lack of govt. policy, lack in private sector, lack in managerial efficiency etc.

After elimination of PPEs the country is facing increasing numbers of unemployment and import of various products. But it is unable to export the raw materials in a proper price as well as transfer of manpower in a suitable wages. So that the country is lossing everywhere like production, distribution, import, and export. It can not control nowhere. Whereby people are facing problems like unemployment, expensiveness, labour explotation, and altimately social problems. That is creating underdevelopment and discrimation for the country in the world.

# CHAPTER VI

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 6.1 Summary

In Nepal, privatization was initiated due to compulsion than a voluntary initiative of the government. The donar agencies and foreign governments had enforced to privatize the PEs to the government of Nepal. Nepalese PEs were facing some problems of deficit through political interruption and lack of resources and good management. However the government had taken initiation to privatize many of the PEs to get ride of financial burden. Many of the privatized PEs shows the positive reasult in a short run. Because those PEs had increased not only the investment but also the  price of the products. In long run those privatized PEs were closed, there is no chance to run again.

If the main objective of privatization was to eliminate government's financial burden of PEs, the process is successful in Nepal. Because the government has collected Rs19,83,658 million during the period of privatization. But privatization means enhancement of sustainable economic development with the participation of private sector,  this process never successed in this situation. Because the privatization colapsed the national invesment, production, employment and national economic activities. As a result, more than 2 thousend youth are going to oversea job everyday.

After privatization the government must give attention for the monitoring and evalution of those PEs and must have given pressure to implement the rules of privatization which were recommended by the committee. Such initiation has not taken by the government and other entites. But the government body says-"The actual situation of privatized PEs could not be assessed through monitoring of those PEs whether these enterprises have been able to achieve the objectives of privatization. It is imperative to develop mechanism for carrying out regular monitoring and evaluation of PPEs".

## 6.2  Conclusion

The privatization process did not give a positive result for long term sustainable economic development. Even it shows possitive result in short term for the country because it is not properly treated for those PEs. It has eliminated the government burden on PEs forever but created a problem of employment, investment and import. So there is no benefit for the country by privatization.

*The weak management, labour protest, lack of protection, supportive policy and monitoring from the government, management and employees side is equally responsible for failure of the privatized PEs.

*Privatization, in theory, ensure the supply of quality goods or provision of quality services, reduce corruption and create competition atmosphere in the market place. But in long run the closed enterprises did not varify the theory in Nepalese context.

*Regarding sufficient of the existing policy, acts and regulations to promote privatization process, there should be ensuring transparency, regulating mechanism, competition policy as well as review of the Labor Act, 1991(2048) and the Company Act, 1996 (2053) well called for. And the government should develop its own policy not the donor driven one.

## 6.3 Recommendations

1. Government must be aware about possible and suitable way of sustainable economic development through the development of independent bodies or government-private bodies to the PEs.

2. Due to poor management, political interruption and labour protest in the PEs, their effency and productivity are decreasing. At the same time the financial and administrative burden of the government is increasing. That makes PEs relatively less important from the point of view national growth. So make them far from the situation by develop some act and rules.

3. The key issues like welfare of employees, proper assessment/valuation of public property, technical and financial capabilities of bidder, price and quality control should be given due attention in ownership changing period.

4. Post-privatization with designed public regulatory framework is necessary for good national economy. It is likely as a part of the government, a system should be instituted for regular monitoring and evaluation of the performance of the enterprises after their privatization.

5. There must be access on share sales of public and employees for the long rung existance of such enterprises.

6. The existening policy, acts and regulations should be reviewed and updated as per the emerging needs of the enterprises and changing context of liberalized market economy.

# Appendixe1

| Growth of PEs during the First Plan | FY of establishment |
|---|---|
| Asahaya Kalyan Kendra (P) Ltd. | 1957/58 |
| Royal Nepal Airlines Corporation | 1957/58 |
| Nepal Industrial corporation | 1958/59 |
| Balaju Yantrashala (p) L td. | 1959/60 |
| Raghupati jute mills L td. | 1959/60 |
| Timber Corporation of Nepal | 1960/61 |
| Sri Ratna Recording Corporation | 1961/62 |
| National Trading Limited | 1961/62 |
| National Construction Company of Nepal | 1961/62 |
| Provident Fund | 1962/63 |
| Gorkhapatra Corporation | 1963/63 |
| Nepal Electricity Corporation | 1962/63 |
| Hetauda Industrial District | 1962/63 |
| Nepal Carpect (p) L td. | 1963/64 |
| Patan Industrial Estate | 1963/64 |
| National Commarcial Bank | 1963/64 |
| Birgunj Sugar Factory | 1964/65 |
| Janakpur Cigarette Factory L td. | 1964/65 |
| Transport Corporation Of Nepal | 1964/65 |
| Fuel Corporation | 1964/65 |
| During the Third Plan Period | 1965/70 |
| Basbari Leather and Shoe Factory | 1965/66 |
| Agriculture Inputs Corporation | 1965/66 |
| Chandeswari Textile Industry (P) L td. | 1966/67 |
| Cottage Industry and Handicraft Emporium | 1966/67 |
| Nepal Tea Development Corporation L td | 1966/67 |
| Agriculture Development Bank | 1967/68 |
| Agriculture Tools Factory L td. | 1968/69 |

***Source : Various issues of survey of Ministry of Finance.***

# Appendixe 2

## Existing Public Enterprises of Nepal

| SN | Public Enterprises |
|---|---|
| 1 | Dairy Development Corporation |
| 2 | Herbs Production and Processing Centre limited |
| 3 | Hetauda Cement Industry L. td |
| 4 | Janakpur Cigaratte Factory L.td |
| 5 | Nepal Drugs L.td |
| 6 | Udayapur Cement Industry L.td |
| 7 | Nepal Orind Magnesite |
| 8 | Agriculture Imputes Company L.td |
| 9 | National Seed Company L.td |
| 10 | National Trading L.td |
| 11 | Nepal Food Corporation |
| 12 | Nepal Oil Corporation L.td |
| 13 | The Timber Corporation of Nepal |
| 14 | Industrial Estate Management L.td |
| 15 | National Construction Comapany L.td |
| 16 | Nepal Transit and ware House Management Company L.td |
| 17 | Nepal Engineering Consultancy Service Centre L.td |
| 18 | Nepal Airlines Corporation |
| 19 | Netional Productivity and Economic Development Centre L.td |
| 20 | Civil Aviation Authority of Nepal |
| 21 | Cultural Corporation |
| 22 | Gorkhapatra Corporation |
| 23 | Janak Education Material Centre L.td |
| 24 | Nepal Television |
| 25 | Rural Housing Company L.td |
| 26 | Nepal Water Supply Corporation |
| 27 | Nepal Electricity Authority |
| 28 | Nepal Telecom L.td |
| 29 | Agricultural Deelopment Bank L.td |
| 30 | National Insurance Corporation |
| 31 | Nepal Industrial Development Corporation L.td |
| 32 | Rastriya Banijya Bank L.td |

**Source: Annual Performance Review of Public Enterprises 2010.**

# Appendixe 3

SN Privatized PEs

1. Bhrikuti Paper Factory Ltd
2. Harisiddhi Brick and Tile Factory
3. Bansbari Leather and Shoe Factory
4. Nepal Film Industry Ltd
5. Balaju texttile Industry
6. Raw Hide Collection and Processing co. Ltd
7. Nepal Jute Development Co. Ltd
8. Nepal Bitumen and Barrel industry L td
9. Nepal Lube Oil Ltd
10. Tobacco Development Co. Ltd
11. Nepal Foundary Factory Ltd
12. Raghupati jute Mills Ltd
13. Nepal Bank Ltd**
14. Agriculture Project Services Centre Ltd
15. Nepal Tea development corporation
16. Biratnagar Jute Mills*
17. Himal Cement Industry Ltd***
18. Cottage Handicraft Sale Emporium Ltd
19. Nepal Coal Ltd
20. Hetauda Textile Industry Ltd
21. Nepal Transport Corporation
22. Butwal Power Co.
23. Birjung Sugar Factory Ltd
24. Agriculture tools Factory Ltd****
25. Bhakatapur Brick Factory
26. Lumbini Sugar Mills
27. Nepal Rosin and Turpentine Ltd
28. Agriculture Line Industry Ltd
29. Nepal Drilling Company
30. Nepal Telecom Ltd

*Management contract decision was taken by the board of Directors.

**Ten percent of Government equity was sold.

***Going through Process for liquidation after reverted back by court decision.

****under re-decision making process after reverted back by tribunal award.

***Source: various issues of Annual Performance Reviewof PES of Ministry of Finance.***

# Appendixe 4

Stepwise development process and activity of privatisation in Nepal;

- 1980-85: Two enterprises, namely Chandeshwory Textile and Cheuri Ghee were sold to private sector. A couple of Rice Company including the National Rice Comapany was also liquidation.
- 1984-85: the government come up with an auditions plan to privatize 12 PEs as a rate of one enterprise per month. The share of Banaijya Bank, NIDC capital market and Beema shastha were also pointed in the market but public response was very poor (only 4% of the shares were subscribed). Similarly the NIDC's attempts to transfer in block share of Himal Cement Company to the private parties.
- 1985-92: a series of high level seminars were organized at Nepal Administrative College (NASC) and Management associations of Nepal (MAN) as a prelude to privatization.
- 1989: privatization cell was created with in the ministry of finance (MOF).
- 1990: two companies were liquidation (NFL, SRJM) through share sell.
- 1991: IDMA conducted an attitudinal survey on privatization sponsored by USAID on the Government published policy paper on privatization.
- 1992: the expert from IDA completed privatization feasibility study of six Public enterprises. Frank Peacock prepared privatization strategy paper for MOF (july1992) under UNDP assistance. Three PEs privatized by the government under phase 1 (BPM, PLSF and HBTF)
- 1993: 14 more were suspected for privatization under phase II only five enterprises were privatized (NFDC, BTI, HBCDC, NLO and NBBU).
- 1994: Privatization Act, 2050 (1994) was enacted.
- 1995: A committee was formed consisting of three MPS representing NC, UML and RPP for evaluation of the privatization programme.
- 2002-2007: $10^{th}$ five year plan objectives and policies standing system for security of privatized government enterprises.
- 2003-04: Budget speech 2060/061 announced develop transparency in the privatization: sell of share of Nepal Telecommunication centre (NTC) Rastriya Beema Sasthan through capital market in 2003: privatized Butwal Power company and dissolution other 2 company (BSF and ATC).
- 2004: Bhaktapur Bricks Factory privatized through assets sale and lease and NTC convert into NT for the process of privatization (Mitel 2004).

# Appendixe 5

For implementation of the privatization policy, the following commettee was constituted in accordance with the privatization Act, 1994/2050 (*Source Privatization Act, 1994*).

| | |
|---|---|
| Minister or State for Finance | Chairman |
| Chairman,Finance Committee (House of representative) | Member |
| Two members of Parliament nominated by HMG/N | Member |
| Member, National Planning Commission | Member |
| Secretary, Ministry of Finance | Member |
| Secretary, Ministry of Law and Justic | Member |
| Secretary, Ministry of Labour | Member |
| Secretary, Line Ministry | Member |
| President, Fedaration of Nepalese Chamber of Commerce and Industry | Member |
| Joint Secretary, MOF(Corporation Coordination Division) | Member-Secretary |

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