

## CHAPTER I

### INTRODUCTION

#### 1.1 Background of the study

The concept of public enterprises is distinct from private economic activity, not only in this period public enterprise as means for fulfillment of public needs, during ancient time various informal industries based upon government help to provide goods and services to people and help is economic development of Nepal also. The growth of public enterprises also has its roots in the colonial pasts of the countries of Asia and Africa. The Government sector, the public administration and ultimately the public enterprises in these countries have been greatly influenced by the colonial powers that ruled them. India is a good example of this trend where even today the Railways are the biggest example of a successful public enterprise.

The government sells goods and services to the common people through the means of state owned enterprise system which incorporates the characteristics of both public and private enterprises. Informally during ancient and medieval period of Nepal various agro based and mine based industries were established in various dynasties. Formally, Bank of North America was established in 1791 A.D which is first enterprise of world but in Nepal After 146 year in 1937 A.D during Rana Dynasty Industry council was established after that council same year “Biratnagar Jute Mill” was established as first industry of Nepal, similarly in 1939 A.D another steps of industrialization was took by establishing “Juddha Match Factory” and in 1940 A.D “Nepal Kapada ra Gharelu Item Prachar Adda” was also established from government level. After establishment of Democracy in 1959A.D “Industrial Development Corporation” was established and in 1960 A.D first “National industrial policy” was declared by government. According to Pradhananga, (1983) he state that during the period of Rano deep Singh (1878-1886), a government owned financial institution was opened in 1880 by the name of Tejarath Adda (Office of Finance). During the period of Bir Shumsher Rana (1886-1891), drinking water office was established. Postal services in 1892, electricity in 1912 and telephone and rail & ropeway service were provided in 1928. Many of the present day PEs have roots in these government units. Various aid commitments from international level also at that period and during the 1960s, Soviet and Chinese aid also supported development of a few

government-owned industries.

Most of the industries established during initial stage of periodic planning used agricultural products such as jute, sugar, and tea as raw materials but inputs for Other industries were imported from other countries, mainly India. Because of trade dispute between Nepal and India in 1989-90 many inputs were unavailable and causing lower capacity utilization in some industries. During the same period, Nepal also lost India as its traditional market for certain goods. Because of the lack of industrial materials, such as coal, furnace oil, machinery, and spare parts, there was adverse impact on industrial production.

The number of public enterprises are highest (62) by the end of Seventh Plan. With the emergence of open economy, the policy for the operation and management of PEs on competitive and professional basis was adopted in order to internalize the changing concept of PE management. According to concept of open economy 30 PEs that were not being able to be competitive as well as not in government priority were divested. There were 41 PEs in existence at the time of FY 2015/16 annual review; the existed number of PE is 39 in FY 2017/18. Among them, the number of PEs in commercial activities remain 37.

Nepal Housing Finance Company Ltd. was merged with Siddhartha Development Bank, it was kept in the list of PEs in the last FY review. The merged institution, Siddhartha Development Bank, has recently merged with Janata Bank Ltd. Therefore, Nepal Housing Finance Company Ltd. has been excluded from the PEs' list for the analysis purpose, because the share of the government is limited to 0.4 percent on the total share capital of Janata Bank Ltd. The remaining three PEs, Janakpur Cigarette Factory, National Construction Company Ltd. and Nepal Engineering Consultancy Service Center Ltd., have been kept in the list of PEs, despite the decision has been made to dissolve but the process has not been completed yet. However, Janakpur Cigarette Factory, although it is not carrying out its commercial activities, its assets and liabilities have been incorporated in the total asset and liabilities of PEs in this report as it has been earning rental and other income as well as its due liabilities has not been cleared yet.

Nepal has adopted a mixed economic system whereby public and private sectors coexist to enhance public welfare. PEs have started to grow in Nepal from First Five Year Plan in 1956 and the Industrial Policy of 1957 formally recognized for the first time the government taking responsibility to promote, assist and regulate industrial development

in the country intended to establish state monopolies transportation, telecommunication, hydro-electric power generation and irrigation sector, and to run some big industries, such as, cement, sugar, cigarettes, textiles, iron and steel. And every periodic plan role of public and private sectors is defined. But due to shortage of capital, skill, knowledge and entrepreneurial abilities in the private sector combined with the inadequacies of physical and institutional infrastructure made it necessary for the government to step in and break through the barriers of stagnation with various measures including direct participation and management of industrial activities (Shrestha, 1991:1).

According Pradhan (1982), the desire of more rapid development, more self-sufficiency, the huge aid-dependency of the government and the theoretical skill of the public enterprises as tool of implementing national plans have served as powerful objectives for their establishment. According to Shrestha (1991), the emergence of PEs was thus predicted by the inability of private sector to adequately fulfill these national objectives. It appears that the government participation in non-basic industries was considered merely as temporary measure designed to fill up the gap created by the lack of capital, initiative and entrepreneurial ability of the private sector. But the state ownership and operation of public utilities and basic industries were deemed essential partly because of ideological consideration and partly because of broad socio-economic consideration.

With regard to the economic system of the country, Article 25(2) of the new constitution reads as follows (Law Books Management Committee, 1991): "The economic objective of the State shall be to transform the national economy into independent and self-reliant system by preventing the concentration of available resources and means of the country within the limited sections of the society, by making arrangement for the equitable distribution of economic gains prevent economic exploitation of any class or individual preferential treatment and encouragement to the national private and PEs." PEs in Nepal have been established under four types of acts. Various 28 PEs have been established under Company Act, seven under Special Act, three under Communication Act and two under the Corporation Act. They have varieties of operating process and procedures. There is no uniformity exists among them in the rules and regulations formulated for conducting daily and administrative operating activities among them having similar nature.

Similarly, there has been diverse 2 provisions about the appointment process, service facility and human resource development. (Annual Performance Review of Public

Enterprise- 2018). The major reason of establishment of Public Enterprises in Nepal are for various purposes like, to provide the necessary infrastructure for development, to fill the gaps left by the private sector, to protect and support consumer interests, to avoid monopolies black marketing, creation of artificial scarcity and charging of high prices, to promote public welfare, to reduce income inequalities and equitable distribution of resources, to create large scale employment opportunities and reduce the unemployment problem to some extent, to utilize local resources and create value for the society.

## **1.2 Statement of problem**

Social sector public enterprises are created in Nepal to accelerate economic and social development. Yet, increasing evidence indicates that most social sector enterprises either do not contribute strongly to national development or do not perform their public service functions effectively and efficiently, leading to policymakers engaging in continuing debates over whether or not state-owned corporations are viable to economic and social development; and why so many of them have failed to deliver the services for which they were created, and how their management can be improved upon to achieve efficient service delivery and engender national development. These issues are more crucial as shortage in public goods and also have supply issue. The hopes for the social sector public enterprise dropped because production quantity and quality frequently fell below projections, and the sectors add led governments with increasingly heavy fiscal and managerial burdens. Many came to believe that the problem was a lack of market discipline and the inability of state firms to respond to that discipline where it existed. The investment over social sector public enterprise is added yearly by government, various research has also conducted, smart and capable employee are also hired every year but the status of most of public enterprises is degrading only few numbers are able to perform well but not satisfactory.

Various internal as well as external factor are there which obstacles the performance of public enterprises. A number of management and operational problems constrain public enterprises in several countries, the least of which are spawned by operating culture. This study has attempted to answer the following research questions.

- a. What is the status of investment on social sector public enterprises?
- b. What is the fiscal impact status of social sector public enterprises?

- c. What is the profitability status of social sector public enterprises?
- d. What are the roles and responsibilities of social sector public enterprises?
- e. What are the problems and challenges of social sector public enterprises

### **1.3 Objectives of the study**

The overall objectives of this study is to identify the macroeconomic prospects, problems and impact of social sector enterprise for development of Nepal.

The specific objectives of this study are:

- f. To find out the macroeconomic status of social sector public enterprises.\
- g. To identify the role of social sector enterprises in Nepal.
- h. To identify the problems and challenges of public enterprises over social sector.

### **1.3 Significance of study**

Social sector public enterprises are the pillar of economic and social development of country. The view of citizens towards the enterprises and their performance is always negative because of their poor performance and corruption. The study is related with the macroeconomic performance analysis, roles and responsibility and problems and challenges of social sector public enterprises at macro level. The analysis of performance status of public enterprises from past year will help to dig out the gap on social sector enterprise which will be beneficial to eradicate the problem from policy level.

This study will have benefitted for further researcher who shows interest on public enterprises and the policy makers will also motive to reform the policy of public enterprises.

### **1.4 Limitation of study**

Every study has its own limitations. This study has been conducted by student for partial fulfilment of the requirement for the master's degree of arts in Rural Development. The study analyzed the past and present situation, challenges and problems, impacts of public enterprises. Altogether 5 enterprises of social sector are selected for the study. Dimension of socio-economic impact on public enterprise is very broad and may differ from sector to sector which may not give common pattern of whole public enterprise of country. But

the following limitations are quite remarkable.

Following limitations of the present study:

- a. This is an academic work, as a researcher a student who doesn't have previous experiences like this, thus there could be many shortcomings.
- b. This study is based on data available from yearly publication of MoF, journals, yearly evaluation paper of the study area.
- c. The Finding of this study not applicable to all the public enterprises because of the characteristics of social sector is not same as of others.
- d. This study is conducted within the given time frame and financial limitations.

### **1.5 Organization of study**

The study consists of five chapters. The first chapter will include introductory information about study and study objective i.e. background, statement of the problem, objective of the study, significance of the study and limitation of the study. In the second chapter reviews of the literature will be included. The third chapter will describe the methodology adopted for the study i.e. research design, sampling procedure, data collection techniques and tools. Data presentation and analysis of the study will organize in chapter four. Then the last chapter five will conclude the study and put forward the recommendations about public enterprises.

### **1.6 Operational definition of key concept**

#### **Macroeconomic analysis**

Macroeconomics analyzes all aggregate indicators and the microeconomic factors that influence the economy. Government and corporations use macroeconomic models to help in formulating of economic policies and strategies. A macroeconomic factor is an influential fiscal, natural, event that broadly affects a regional or national economy. Macroeconomic factors tend to impact wide swaths of populations, rather than just a few select individuals. Examples of macroeconomic factors include economic outputs, production, employment status, revenue, profit/loss, ownership and share capital, dividend liabilities and expenses etc. these indicators of economic performance are closely monitored by governments, businesses and consumers alike.

## **Investment**

In economics, investment means creation of capital or goods capable of producing other goods or services. In this study investment over social sector is analyzed and interpreted as well as compared with other enterprises on the basis of investment in last five fiscal years.

## **Net Capital Investment**

Net investment is the amount spent by a company or an economy on capital assets, gross investment, less depreciation. This study examined the actual investment on social sector enterprises in fiscal year 2017/18 and projected net capital investment for fiscal year 2018/19.

## **Ownership**

Ownership is the state or fact of exclusive rights and control over property, which may be an object, land or real estate, or intellectual property. The ultimate and exclusive right conferred by a lawful claim or title, and subject to certain restrictions to enjoy, occupy, possess, rent, sell, use, give away, or even destroy an item of property. This study finds out the types enterprise according to ownership structure and how much share is owned also estimated.

## **Revenue**

The income generated from sale of goods or services, or any other use of capital or assets, associated with the main operations of an organization before any costs or expenses are deducted. In this study revenue of social sector are divided into VAT, income tax and interest on loan.

## **Operating Income**

Operating income—also called income from operations—takes a company's gross income, which is equivalent to total revenue minus cost of goods sold and subtracts all operating expenses. Operating income is similar to a company's earnings before interest and taxes and is also referred to as the operating profit or recurring profit. The one big difference between operating income and EBIT is that EBIT includes any non-operating income the company generates. This study examined the actual operational income of fiscal year 2017/18 and estimated operational income of fiscal year 2018/19 also.

## **Administrative expenses**

Administrative expenses are the expenses an organization incurs not directly tied to a specific function such as manufacturing, production, or sales. This study examined the

actual administrative expenses of fiscal year 2016/17, 17/18 and compares both as well as explains the targeted administrative expense of fiscal year 2018/19.

### **Net profit/loss**

The actual profit after working expenses not included in the calculation of gross profit have been paid is defined as net profit. A net loss is the opposite of net income or net profit, which is when an organization's revenue is greater than its expenses. This study examines the actual net/ profit of fiscal year 2016/17, 17/18 and estimated net profit/loss of next fiscal year 2018/19.

### **Dividend**

Dividend is the sum of money paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves). This study finds out the dividend amount of social sector enterprise in fiscal year 2017/18.

### **Employment generation**

Employment generation is a natural process of social development. Human beings bring with them into the world an array of needs that present employment opportunities for others to meet. This study examined the actual employment status of social sector enterprise of fiscal year 2017/18 and projected employment status of fiscal year 2018/19 also.

### **Asset**

An asset is anything of value or a resource of value that can be converted into cash. Individuals, companies, and governments own assets. For a company, an asset might generate revenue, or a company might benefit in some way from owning or using the asset. This study examined the net fixed asset, cash/bank balance, current assets and other assets also.

### **Audit**

Audit is the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following documented system of recording transactions. This study examined and divides social sector enterprise on the basis of duration of audit process.



## **CHAPTER II**

### **LITERATURE REVIEW**

A literature review is a comprehensive summary of previous research on a topic. The literature review surveys scholarly articles, books, and other sources relevant to a particular area of research. The review should enumerate, describe, summarize, objectively evaluate and clarify this previous research. In this chapter conceptual review, theoretical review, empirical review and conceptual framework was elaborated.

#### **2.1 Introduction**

According to Obikeze and Anthony (2004) define that Public enterprise is part of government apparatus and three implications are hereby highlighted. First, a public enterprise, by virtue of its intricate relationship with government, is an instrument of public policy and its primary mission is in connection with governmental objectives and programs. It is therefore naturally under governmental control. Second, a public enterprise, by its nature, mostly manages public resources, especially public money and this means that attention must be paid to mechanisms for enforcing accountability. Third, the combination of financial and economic objectives with social and political aims invariably makes it difficult to devise appropriate performance measurement instrument. Any commercial or industrial undertaking which the government owns and manages with a view to maximize social welfare and uphold the public interest defines public enterprises. Public enterprise, a business organization wholly or partly owned by the state and controlled through a public authority. Public enterprises are business enterprises established by government which has government ownership, management and control, service motive, autonomy, public accountability, separate legal status and continued existence. Public enterprises as a form of business organization have gained importance only in recent times. Public enterprises are autonomous or semi-autonomous corporation companies established, owned, and controlled by the state. In the past, the private sector had lack of adequacy on entrepreneurship and capacity as well as their deficiency on capital and experience for large infrastructure development. Therefore, Government of Nepal (GoN) has been establishing and managing PEs in public service, industry, trade, financial, industrial sector and so on. Public Enterprises are established in Nepal mainly for providing basic goods and services with ease access to the public at a fair price while maintaining a healthy competition in the delivery of such goods and services. They have

been playing an important role in controlling the market monopoly, reducing artificial shortage, fair distribution of essential goods and service as well as expanding access to financial facilities. PEs function under the direct control of the government and some are even established under statutes and Companies Act. Therefore, public enterprises are autonomous or Semi-Autonomous in nature, either the State or the Central government can control a public sector enterprise. Primarily, the objective of establishing a public enterprise is to serve the public. They can supply essential goods/services at reasonable prices and also create employment opportunities. A public enterprise endeavors to serve all section of people in the community. In some sectors, private organizations do not have permission to operate. Therefore, the public sector enterprises enjoy a monopoly in operation. Public sector enterprises are liable to the general public for their actions. These enterprises help in the implementation of the economic plans and policies of the government. The government makes the primary investment in a public sector enterprise. However, they arrange finance for the day-to-day operation making it financially independent.

The economic justification for public enterprises, in the developing world and elsewhere, has been based largely on the notion of market failure, that under certain conditions the market produces suboptimal economic outcomes such as low production and extremes of wealth and poverty. Governments hoped that public enterprises would assist the development of "strategic" sectors, gain access to commercial credit that would be denied to small private businesses, fill "entrepreneurial gaps," empower numerically large but economically weak segments of the population, maintain employment levels, and raise the level of savings and investment. State ownership was not thought to offer any inherent obstacles to the efficient functioning of these enterprises. The private sector, it was assumed, would consume wastefully or remit its earnings abroad.

Through the efficient management of PEs, the business principles and market rules can be adopted, and autonomy in operation and decision-making process can be conferred. From this, it is possible to increase their efficiency on the delivery of goods and services and improve financial operational efficiency as well as help to control the monopoly of private sector. Although having investment over public enterprises the gap on performance as well as degradation of status is still existed till. This research paper will help to find out the macroeconomic status of social sector enterprise and their problems.

## **Manufacturing**

Among the modern industries were large manufacturing plants, including many public sector operations. The major manufacturing industries produced jute, sugar, cigarettes, beer, matches, shoes, chemicals, cement, and bricks. The garment and carpet industries, targeted at export production, have grown rapidly since the mid 1980s whereas jute production has declined. Industrial estates were located in Patan (also called Lalitpur), Balaju, Hetauda, Pokhara, Dharan, Butwal, and Nepalganj. The government provided the land and buildings for the industrial estates, but the industries themselves were mostly privately owned. Till now, 700 industries have been established inside 10 Industrial Estates. Out of them, 604 industries are in operation, 60 industries are under construction and 29 industries are closed and 18,178 people have been directly employed in these operated industries. A total of Rs 21.51 billion including Rs. 1.24 billion from Nepal government and Rs. 20.27 billion from private sector has been invested in Industrial Estates. The amount is 1.28 percent of the total investment in the industrial sector.

## **Private limited companies**

The history of incorporated private firms in Nepal is short. The Nepal Companies Act of 1936 provided for the incorporation of industrial enterprises on joint stock principle with limited liability. The first such firm, Biratnagar Jute Mills, was a collaborative venture of Indian and Nepalese entrepreneurs. It was formed in 1936 with initial capital of 160,000 Indian rupees. In response to shortages of some consumer goods during World War II (1939-45), fourteen private companies emerged in such diverse fields as mining, electrical generation, and paper and soap production. The initial capital invested in each of these industries was small. In 1942 two paper mills emerged as joint ventures of Nepalese and Indian entrepreneurs. Industrial growth gained momentum after 1945, although the end of World War II had reduced the scarcity of goods and caused many of these companies to incur losses.

Under the Nepal Companies Act, there was no provision for private limited companies. In 1951, however, a new act was implemented with provisions for private limited companies. This act encouraged the establishment of ninety-two new private joint stock companies between 1952 and 1964. Most of these companies were much smaller than existing companies. Under the provisions of the 1951 act, public disclosure of the activities of the firms was not required, whereas the 1936 act allowed substantial government intervention. The Industrial Enterprises Act of 1974 and its frequent

amendments shifted the government's emphasis on growth from the public to the private sector. However, discrepancies between policy and practice were evident, and the public sector continued to be favored. In FY 2018/19 there are 17105 numbers of private companies. (Source: Office of the Company Registrar, FY2018/19).

### **Public limited companies**

Public companies also had varied success. Between 1936 and 1939, twenty public companies were formed, of which three failed. Between 1945 and 1951, thirty-five public firms were incorporated, six of which went out of business. Between 1936 and 1963, fifty-four firms were incorporated, but at the end of 1963 only thirty-four remained in operation. The success of public companies continued to be erratic. In FY 2018/19 there are 44 public limited companies. (Source: Office of the Company Registrar, FY2018/19).

## **2.2 Theoretical review**

The economies evolve and develop over time and many theories developed over the years that have attempted to give both descriptive and predictive explanations. One of the more widely accepted theories was Keynesian economic theory which was published by John Meynard Keynes in 1936 A.D after great economic depression of 1930's. Keynes was the first to develop a systematic theory of employment in his book 'The General Theory of Employment, Interest and Money' (1936). The classical and the neoclassical economists almost neglected the problem of unemployment. They regarded unemployment as a temporary phenomenon and assumed that there is always a tendency towards full employment. It was Keynes who led a vigorous and systematic attack on the traditional theory of employment and replaced it with a more general and more realistic theory.

Keynesian economics theory says the government should increase demand to boost growth. Keynesians believe consumer demand is the primary driving force in an economy. As a result, the theory supports expansionary fiscal policy. Its main tools are government spending on infrastructure, unemployment benefits, and education. The model works on the belief that the private sector does not always produce the most efficient results for the economy as a whole. It therefore promotes a degree of state intervention to influence the economy, most notably to manage the effects of the business cycle of growth and recession. The basic assumption of Keynesian economics is that employment is a function of income. Large income in a community means high

employment and when its income is small, employment is low. Keynesian economists generally advocate a market economy – predominantly private sector, but with an active role for government intervention during recessions and depressions. Keynesian model calls for fiscal policy where governments increase spending at times when the economy is in a slowdown. This involves a theory described as the multiplier. This states that if government spends to create jobs, the employed people will have more money to spend. They will then demand goods and services from private companies, which in turn will hire more people, who in turn will have more money to spend, and so on. The idea is that the total increase in income and spending in the economy will be a high "multiple" of the original government spending. Keynes theory advocates that government spending on infrastructure, unemployment benefits, and education will increase consumer demand so government spending is necessary to maintain full employment.

### **Main assumptions of the theory**

The major assumptions of the theory explained that when total employment increases then output and income also increases proportionately (i.e. Total employment = total output = total income). Original Keynesian analysis considers private consumption and private investment expenditure only and does not take into account government expenditure. But, in modern times, government expenditure is also a significant determinant of effective demand. Government expenditure is considered the most effective weapon to fight unemployment. Volume of employment depends upon effective demand effective demand, in turn, is determined by aggregate supply function (representing costs of entrepreneurs) and aggregate demand function (representing receipts of entrepreneurs). It is determined at the point where aggregate demand and aggregate supply are equal.

### **Variables of Theory**

The quality and quantity of labor and capital stock, techniques of production, degree of competition, consumer tastes, the structure of the society are the elements, the consumption function, the investment function or the marginal efficiency of investment schedule, the liquidity preference function, the quantity of money fixed by the monetary authority are the independent variables and dependent variables are the level of employment, output and income, and the rate of interest.

### **2.3 Empirical review**

According to Adeoti (2005) public enterprise means predominantly industrial, commercial, entirely or partly owned and substantially controlled agency by federal, state or local government. From Ademolekun (2002) view, a public enterprise is a corporate body and act as the governmental apparatus for entrepreneurial or entrepreneur-like objectives. State owned enterprises are alternation of the market failures, to correct the rationality limited by the agents and to reduce social inequalities. The Organization for Economic Cooperation and Development (OECD, 2004) defines as public enterprise are those companies of state of which plays significant control and a majority or minority property of State capital. That commercial companies, such as public services, and financial companies such as financial institutions and entity controlled by state. A brief review of the comparative literature on public enterprises illustrates that although public enterprise management has been in existence for a very long time, it has received little attention from either scholars or practitioners.

According to literature of Esman (1991), both developed and developing countries are based on rapid growth of public enterprises particularly after World War II and assumes the welfare state, planned development, and state-led economic growth and a state-centered economic approach in developing countries that became a pivotal policy option to ensure national development, wealth redistribution, employment generation, and economic self-reliance. Anyadike (2013), defined a public enterprise is incorporated or large unincorporated enterprise in which a majority of the shares can control over management decisions are hold by public authorities. According to OECD (2018) “the major challenges in public enterprises are lacking of control policy to safeguard assets, accountability, fraudulent behavior which reduces the efficiency and performance”. Public enterprises are key institutions for government to create employment as retrenchment is the soft target for restructuring and reforms in private firms (Afegbua & Ejalonibu, 2015). From point of Lephakga (2017), the profit generated by public enterprises shall fruitful for all members of society by supplying and maintaining public goods and infrastructures which helps to eradicate problem of poverty and inequality.

More recently, the Government of Trinidad and Tobago (2011) published a State Enterprises Performance Monitoring Manual which sets out guidelines for improving the corporate governance framework for state enterprises. The Government of Trinidad and

Tobago followed up with the State Enterprises' Investment programs at 2014 which provides an overview of the developmental capital programs undertaken by state enterprises and statutory authorities. However, while previous research acknowledges the contribution of public enterprises to economic growth and development, there is still a need to objectively analyze and understand the critical role played by the state. In addition, these research studies underscore a fundamental need for further assessment of the role of government intervention, especially since there is a gap in the literature which is reflected in little research on the recognition of the role of public enterprises as agents of public sector entrepreneurship and their contribution to national development in developing countries. Shrestha (1991) explains that in each development the role of public and private sectors was defined but shortage of capital, skill, know-how and entrepreneurial abilities in the private sector combined with the inadequacies of physical and institutional infrastructure made it necessary for the government to step in and breakthrough the barriers of stagnation with various measures including direct participation and management of industrial activities. Cook and Kirkpatrick (2000) state that for reason of social welfare state which is incompatible with profit maximization public enterprises are often established by governments.

Shrestha (1991) assumes that public enterprises fulfill vacuum created by lack of capital, initiative and entrepreneurial ability of private sector there must be participation of government based industries in country like Nepal. PEs in Nepal also has been many ideological reasons, political considerations, development purposes, socio-economic considerations, macro and micro-economic justifications can be identified as the leading rationale. From the review of K.C. (1999) over public enterprises of Nepal he found that PEs can realize various development objectives such as; adopting socialist model of development, controlling strategic sectors of economy, developing requisite economic infrastructure, managing "essential services", controlling "commanding heights of economy", managing and controlling "natural monopolies", developing backward areas, providing competitive element to the private sector, generating income and employment, developing technology, utilizing economic resources, discouraging concentration of economic power, etc. (World Bank 2014) explains, to improve accountability and performance of public sector transparency and disclosure creates positive effects. Some other key like time and accurate disclosure of information, high quality accounting standards, accurate auditing increases efficiency of public enterprises which leads

towards public services.

Bajracharya and Sharma (1996) examines that there is high priority of Government of Nepal over PEs from the Second Plan to the Seventh Plan and seems as a vehicle for development. Nwizu, (2008) conceptualizes that public sector functions depends on its sound and efficient organization and for the success and continuity of the enterprise the form of an organization has an important bearing. According to Obasaolufemi (2015) he explains that public Sector as the part of the national economy concerned with providing basic and key services for public which differs from country to country but in most countries the public sector includes such services as the police, military, public roads, public transit, primary education and healthcare for the poor. According to ILO working paper on “Statistics on Public Sector Employment, Methodology, Structures and trends” (1999), defined public sector enterprises composed of a general government sector and a public corporation sector as well as all market or non-marketing activities at each institutional level which are controlled and mainly financed by public authority. According to Nwoye (2011), a Public Enterprise is viewed as an artificial weapon and part of government apparatus which helps in socio-economic transformation, through authorized law particular activities and functions with powers clear jurisdiction over specific area of particular commercial activity.

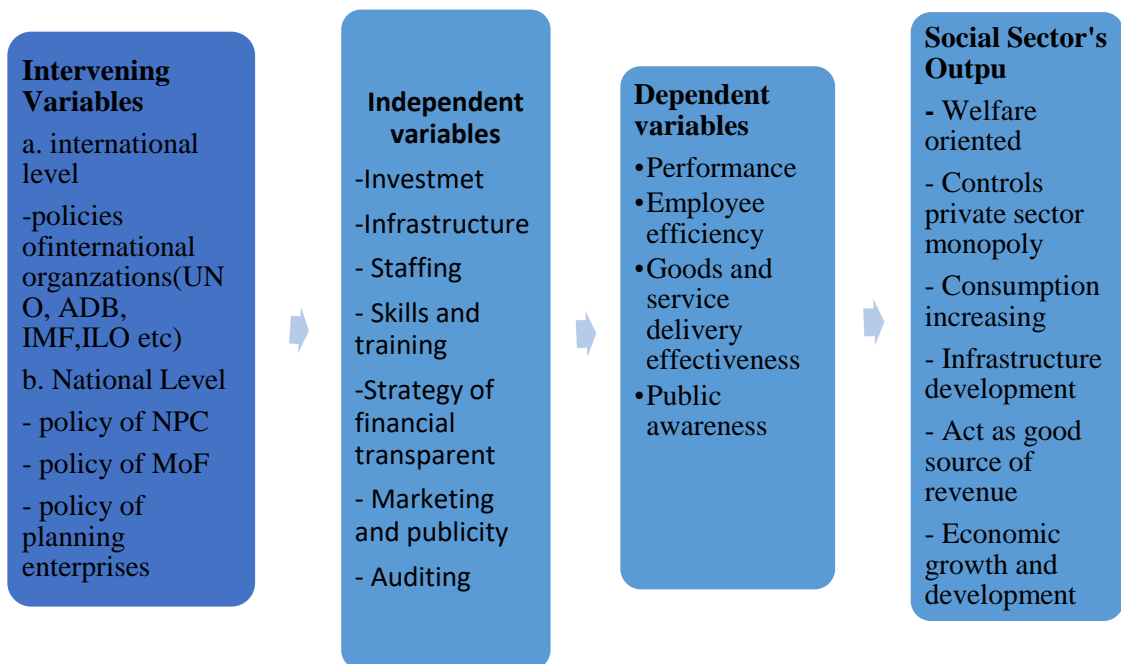
The government have the power to appoint the directors of the company, although the existence of private shareholders would contravene condition above. In practice, there is a spectrum of types of enterprise, ranging from the ‘purely public’ corporation to the ‘purely private’ corporation in which the government has no equity stake. In between are ‘mixed enterprises’ of different varieties. The term “Public Sector” is understood to mean different things to different people in different countries. In its widest interpretation, the Public Sector encompasses all activities of Government. An understanding of the distinction between “Public Sector”, which is a very compendious term and Public Enterprise (PE), which is otherwise called Government Controlled Enterprise (GCE) or “State Owned Enterprise (SOE), would be instructive. Dimgba, (2011) explains that public enterprises include commercial, financial, industrial, agricultural or promotional undertaking which is owned by public authority, either wholly or partially that engaged in the sale of goods and services and whose affairs are capable of being recorded in balance sheets and profit and loss accounts.



## 2.4 Conceptual framework

This study explains that various independent and dependent both variables are responsible for functioning the enterprises are directly related to social sector enterprises output and all the independent, dependent variables and output is directly and indirectly influenced by national and international intervening variables. Various international policies, laws, acts treaties, agreements enforce to develop national level policy, laws and function according to it. According to Justin Yifu Lin (2010), World Bank Chief Economist, where industrial policies fail this is “due mostly to governments’ inability to align their efforts with their country’s resource base and level of development”. They will accumulate human and physical capital in the process. This capital can be reinvested over time in more productive industries. Industrial policies play crucial roles for the macroeconomic development of the country.

**Fig-1 Theoretical framework on social sector enterprises output**



Some studies have shown that workers in the public sector are poorly motivated and there is a lot of politics in the recruitment of personnel, which makes it all most impossible to employ better hands to handle the jobs. People feel that public job is no man's job and could be handled without seriousness. Merit is killed on the alternation of

politics. The world experiences show that some countries are in the position of high income group due to rapid industrialization. Macroeconomic variables such GDP, employment, investment, foreign trade, total revenue, and trade balance as well influence granted to the economic openness and industrial policy change. The present study is basically explaining that necessary to assess the effective industrial policies of national and international level on social sector enterprise for economic growth, employment, investment, trade. For perfect social sector enterprise output government must increase investment over financial and human capital, develop infrastructure, trainings and skill development of employee, various strategy for marketing and publicity of goods and services are needed, which directly affects the performance of the organization, the efficiency of employee also increases, there will be effectiveness on goods and service delivery, awareness of public about services also improved and corruption will be minimizes. Mainly the investment for development of infrastructure is needed to changing the overall performance of social sector enterprises because policies, laws and planning of enterprises are good enough in comparison to other independent factors. According to World Development Report (1994) 'Economic Development and infrastructure shows a direct and positive relationships which well acknowledged by the World Infrastructure act as the wheels of economic activity and also a component of the capital stock of a society. As such increase in infrastructure sustainable development promotes. A relationship between infrastructure development and economic development of a country has long been recognized. Infrastructure development may affect production and consumption directly and create many positive and negative externalities.'

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

Methodology is the set of rules and procedures which indicates how research and arguments are to be conducted within the framework of disciplinary research philosophy. It deals with the information collection, processing and organizing as well as analysis techniques. The use of methodology allows accumulation of a disciplinary store of knowledge and the results of works aimed at comprehending particular topics which are accepted as valid because they were collected within the criteria of epistemology and ontology that are part of the relevant theory.

#### **3.1 Research design**

The term research means a systematic process which leading to an increasing in the sum Knowledge. This study is mostly based on collection and analysis of data which are processed to create knowledge. Qualitative method is employed in this research method and observation. Descriptive design is chosen because its gather information and facts together, compare results and relates variables. It helps to describe the phenomena in better way without changing anything and this method consumes less time. This research design was based on descriptive based on detailed investigation and record of the study area.

#### **3.2 Rationale of selection of the study area**

Social sector of public enterprise has been selected as study is for completion of my research work. All the study area is the part of national economy which is located in Kathmandu valley. The history of industrialization is started from ancient time of Nepal, but due to modernization these enterprises must be upgraded and further help in sustainable development. The social sector of public enterprises is capable to provide services for citizens, but somehow they are not achieving as much their target because of various internal and external factors. Until this date, no any research work has been done so far in this sector and my study will have a great significance. Furthermore, this research will be an important basis for future researchers on social sector. It is estimated that this research has positive influence and provide input for formulating plans and policy to implement program both at local and national level.

## **Social sector enterprises**

The public enterprises of Nepal are classified into six main categories which are: Industrial Sector, Trading Sector, Service Sector, Social Sector, Public Utility Sector, and Financial Sector. All together there are 39 public enterprises among them social sector have 5 enterprises which are as follows.

### **1. Cultural corporation**

For the purpose of institutional development of Nepali drama, song, music and dance, the national dance house was constructed in 1959 and the dance house was officially established on November 13, 1961. It is wholly owned by the Government of Nepal. The institute also coordinates with government and non-governmental agencies in conducting its programs. It operates programs rich in religious, social and humorous plays, dances, plays, comedies, folk songs, modern songs and traditional classical dances and folk dances, in order to provide healthy entertainment to the general public by selling tickets at free and fair price as a result of their regular program. This enterprise incorporated and governed on the Communication Corporation Act, 1972. This enterprise is under the Ministry of Cultural, Tourism and Civil Aviation. The major objectives of these enterprises are: to provide healthy entertainment to the general public through cultural regeneration and to fulfill the intellectual needs of the people while maintaining and developing Nepal's glorious culture and traditions. The major functions of this enterprise are: cultural programs will be created and its live performances will provide healthy entertainment for the people, cultural events will be prepared and performed at important functions and events, services provided by the institute, producing various cultural events (dance, drama, song etc.), artist training in various genres, hall rental.

### **2. Gorkhapatra sasthan**

The publication of the Gorkhapatra as a weekly newspaper, started under the initiative of Shree 3 Dev Shumsher, who was known as a liberal Rana ruler, for the first time on May 6, 1901 AD (that is, Baisakh 24, 1958 BS) happened to lay the foundation of Nepali journalism. Although younger by three years to Sudhasagar, which is said to have come out in 1898 AD (1955 BS) as a literary magazine, the Gorkhapatra has been regarded in the world of journalism as Nepal's first newspaper. The Gorkhapatra has been published without a break since it started its journey in 1901 BS and has faced various ups and downs over the 119 years, going well past over the age of a century. Publication of papers is main objective of this enterprise. The incorporation act and governing act of this

enterprise is Gorkhapatra Corporation Act, 1963. It is under the Ministry of Communication and Information Technology.

### **3. Nepal television**

The NTV was established in January 1985 with the slogan “Communication for Development.” Today, it is the only channel accessible all over the country. Nepal Television is committed to promoting pluralism and protecting the typical Nepali cultures and strengthening the national unity. Several attempts are being made by media stakeholders to convert and transform NTV into a truly Public Service Broadcasting (PSB) entity. NTV, being currently owned by the government, has lost its editorial independence and is blamed for continuously being a government mouthpiece. As the country's oldest television channel, a need for transforming its operation into the hands of the public is realized by media experts in Nepal. The objective of Nepal television is to promote the cultural heritage of Nepal, Safeguard the Natural resources, promoting the national interest and promoting the national consciousness among the citizens by adopting and utilizing the new technologies for broadcasting. The incorporation and governing act of this enterprise is Communication Corporation Act, 1972. This enterprise is under Ministry of Information and Communication Technology.

### **4. Rastriya awash company ltd.**

Within the 2000, the government committed to fulfill all the basic needs of food, clothing, housing, education, health and security in 1985. In the area of housing, it was estimated that an additional 9.5 lakh houses in the area of 5 sq. m would be needed for the low income people in rural areas. It is deemed necessary for the continuation of the timber in the country and to preserve and maintain the rest of the forest area so as not to disturb the environment of the country. Therefore, due to land constraints, it was not possible to continue agriculture based rehabilitation program as in the past. The Ministry of Housing and Physical Planning was formed on 22 December 1987 to meet the needs of the residents. Rehabilitation Department dismissed. The Nepal Rehabilitation Company was brought from the Ministry of Forest to this Ministry. According to the decision of the Council of Ministers of 13 February, 1990, the Nepal Resettlement Company was converted into a Rural Housing Company on 20 February, 1990 with the purpose of conducting a housing program in the rural areas. Finally, in 24 December, 2012 it is named as Rastriya Awash Company ltd. Major objective of this enterprise is to housing arrangement in different parts of the nation by getting resources from the

related agencies to the disaster hit and houseless families, to develop planned settlement, housing arrangement will be provided to those below poverty line and landless families by managing necessary financial resources. While conduction project mining, Hydro Electricity, road construction, establishment of factory etc. Rehabilitation arrangement will be made available to the displaced families by getting necessary money from the agency conducting the project, etc. The incorporation act is Companies Act, 2006 and governing act of this enterprise is Prabandha patra & Niyamawoli, Arithik Biniyamawaoli, Sarwajanik Kharidain and other rules and regulation. This enterprise is under Ministry of Urban Development.

#### **5. Janak education material center**

Janak Education Material Center Ltd. Is one of the wing of government on Nepal. Teachers were trained in massive scale and this center came into its name and since then it has been known as Janak Education Materials center. It was established 29 years ago. Following the dawn of democracy in Nepal in 1950 A.D., well-conceived educational programme was launched. To publish, development and production of school level text books and provide in appropriate price is the main objective. The incorporation act and governing act under Companies Act, 2006. This enterprise is under Ministry of Education, Science and Technology.

### **3.3 Nature and source of data**

The study was based on secondary data published by Ministry of Finance. Both published and unpublished document, records, books, journals and relevant materials related to subject matter will be incorporated as secondary data. However secondary data were collected from different authorize sources like; Tribhuwan University Library, Newspaper, magazine, internet search, Ministry of Finance, Central Bureau of Statistics. Other sources which facilitate the researcher with useful insight advantage with this study will also considered a prior importance.

### **3.4 Universe, population and sample size**

In this research paper Industrial sector of Nepal was considered as universe, all the public enterprises as population size and 5 public enterprises of social sector as sample size.

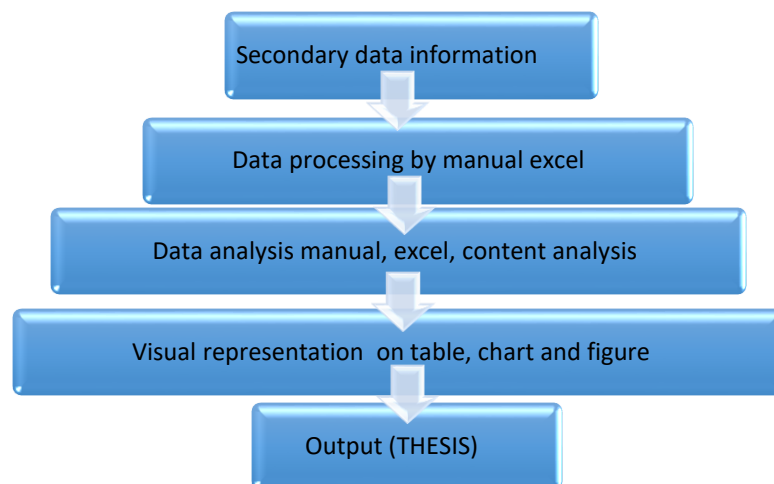
### 3.5 Sampling process

In this research, purposive sampling has been adopted where all 5 enterprises of social sector are chosen as sample in this study.

### 3.6 Data processing and analysis

Data analysis which follows data processing is crucial aspect of research. The task of analysis is to bring order out of notes to pick out the central theme of the study and to carry them across the written books (Baker, 1994). The information gathered from different sources and methods are subsequently reediting, processed and analyzed. As the research is descriptive cum analytical nature, separate method and technique were applied to analyze data to research conclusion. The data were analyzed by descriptive qualitative method. However as per the necessity some quantitative data were also analyzed with the help of computer using simple statistical tools like table, pie-charts simple bar diagrams and Ms- Excel as well. According to Patton (1980) qualitative method provides depth and detail crucial for understanding for what people have to say in their own word as reflected in direct quotation and careful description of events, experience and thought.

**Fig-2 Schematic framework of data analysis**



In this research data were collected directly from secondary information source. These collected analytical information was entered manually in excel sheet in a way of table, chart etc.

## CHAPTER IV

### DATA ANALYSIS AND INTERPRETATION

Data analysis is defined as a process of cleaning, transforming, and modeling data to discover useful information for business decision-making. The purpose of Data Analysis is to extract useful information from data and taking the decision based upon the data analysis. Interpretation of data refers to the task of drawing inferences from the collected facts after an analytical and/or experimental study. In fact, it is a search for broader meaning of research findings. Public enterprises of Nepal are highly delicate and specialized part of Nepalese economy, so the status of their macroeconomic portion was analyzed as following mainly over investment status, ownership structure, share structure, revenue, operating income, net profit/loss, dividend, shareholders fund, employment generation, auditing process, asset status through the secondary source. On other hand the roles and responsibility and problems and challenges of social sector enterprise also analyzed.

#### 4.1 Macroeconomic Analysis

##### 4.1.1 Five-year total investment status of (comparison with other sector)

The table-1 explains that every year the investment over public enterprises is increasing gradually. The investment over public enterprises increases during last 5 years, in FY 2013/14 is 6%, FY 2014/15 is 13%, FY 2015/16 is 7%, FY 2016/17 is 14% and FY 2017/18 is 17%.

**Table-1 Investment status of public enterprises in million**

Sectors	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
<b>Industrial</b>	11278	11876	12280	12473	12628
<b>Trading</b>	14983	15164	2929	3039	2330
<b>Service</b>	17893	20932	22936	32198	41654
<b>Social</b>	<b>3109</b>	<b>3860</b>	<b>4130</b>	<b>4520</b>	<b>4892</b>
<b>Public Utility</b>	156846	177727	201793	228119	265304
<b>Financial</b>	23387	26563	30008	31731	37984
<b>grand total</b>	227496	256122	274076	312080	364792
<b>Yearly increasing %6</b>		13	7	14	17

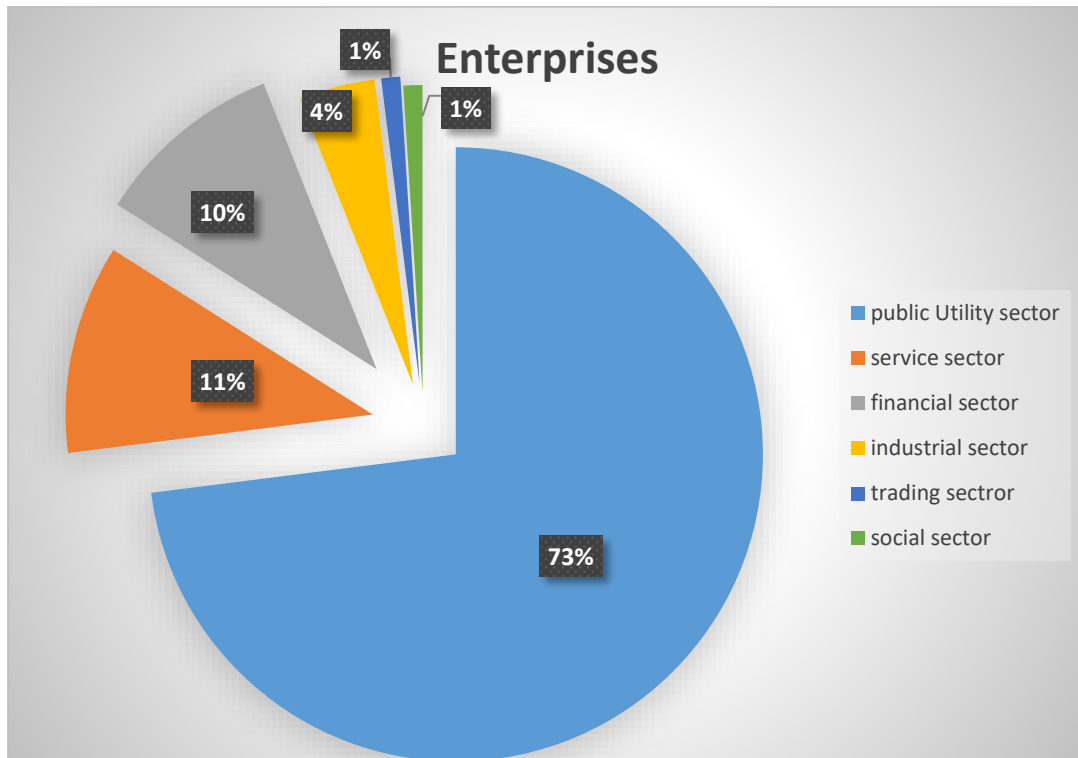
Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18

Here the investment over public utility sector, trading sector have more sectoral



investment. In FY 2013/14 only 3109 million and in FY 2017/18 only 4892 million of investment this explain there is very low investment. During fiscal year 2017/18 the investment over public enterprises are increasing by 17% than last fiscal year that is 364792 million. There is huge investment over public utility sectors which consumes 73% of total investment, similarly financial sector 10%, industrial sector 4% and service sector 11%, trading sector 1% and social sector 1%.

**Fig-3 Investment percentage in FY 2017/18**



Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18

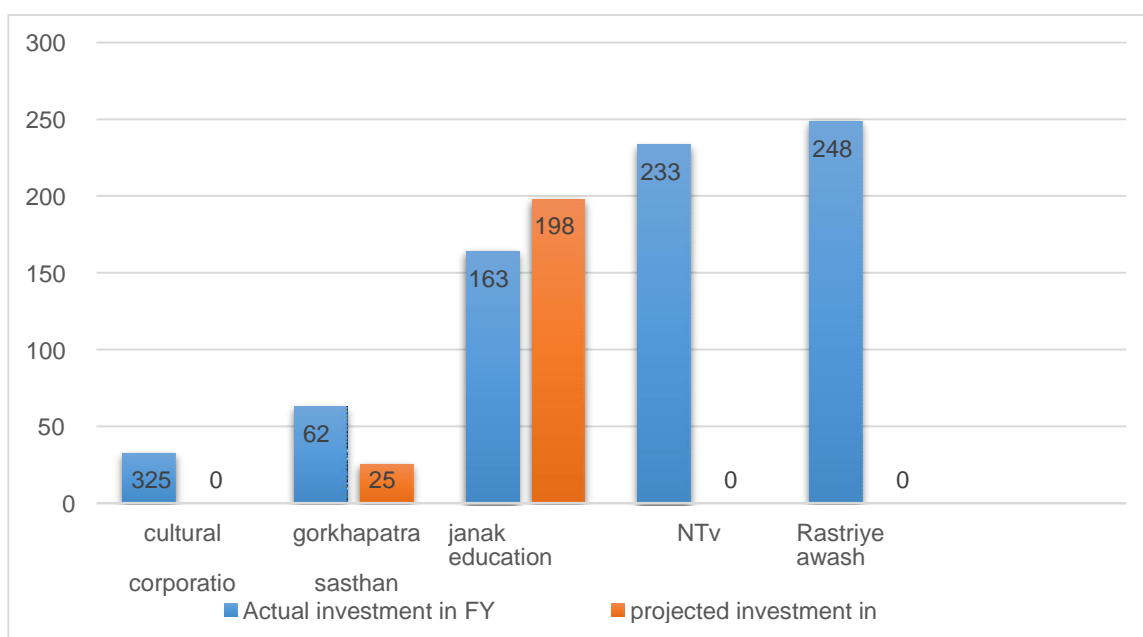
This shows that maximum investment over public utility sector only and very low or it's called as insignificant investment over service and social sector. Social sector is for the social development of nation so policy and programs are needed to attract private sectors too for investment. The social sector enterprises unable to develop social infrastructures which are required for development of nation. To execute ambitious planning and programs there must be sufficient investment otherwise the performance will weak.

Are those enterprises got sufficient amount to execute their performance? More investment is required to success the objectives of enterprises. Every year investment was increased in very low amount this shows the social sector public enterprises didn't have sufficient budget.

#### 4.1.2 Net capital investment over social sector (in million)

In FY 2017/18 the total actual amount of investment is Rs. 7403 million and among social sector enterprise total investment in Cultural corporation is Rs. 325 million, Gorkhapatra sasthan is Rs. 626 million, Janak education material is Rs. 1636 million, NTV is Rs. 2331 million and in Rastriye awash is Rs. 2485 million.

**Fig-4 Net capital investment over social sector**



Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18

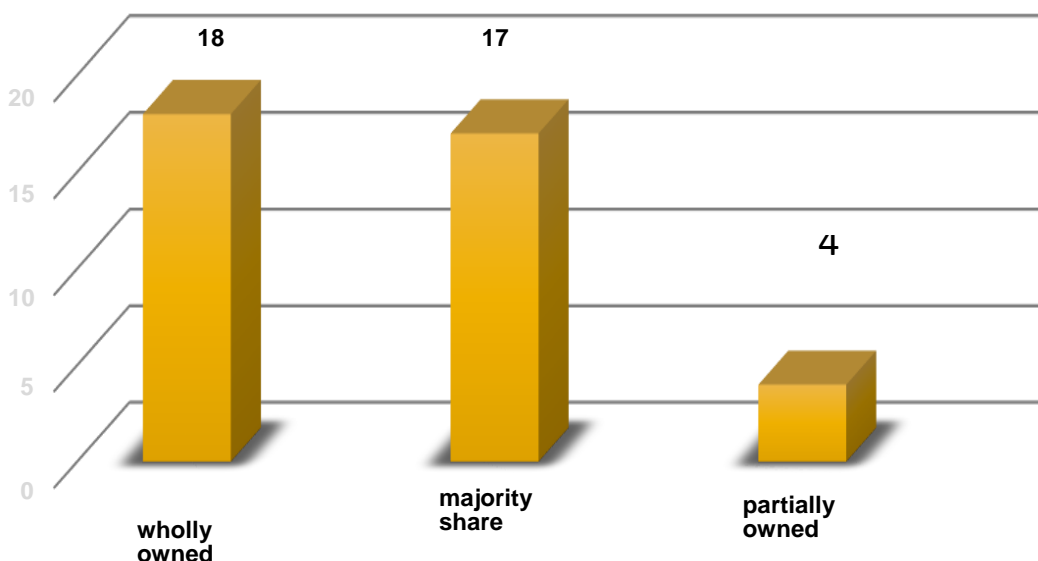
This figure shows that very few investments in Cultural Corporation and very huge investment in Rastriye awash company. After earthquake Rastriye awash become focused on reconstruction of houses for victims from east to west so here huge investment is needed but that's not sufficient because many people are still suffered from lack of shelter. Cultural corporation have very few amount of investment which is not sufficient. All the enterprises of social sector have projected their investment amount for FY 2018/19 cultural corporation, Nepal television and Rastriye awash has not projected their investment amount but Gorkhapatra sasthan projected Rs. 250 million, Janak education has Rs. 1980 million of projections for FY 2018/19 which is explained by above bar graph.

#### 4.1.3 Ownership structure

The ownership structure of overall public enterprises can be divided into three main categories which are as: wholly owned public enterprises by government, majority

share of government and partial share of government.

**Fig-5 Types of public enterprises according to ownership in number.**



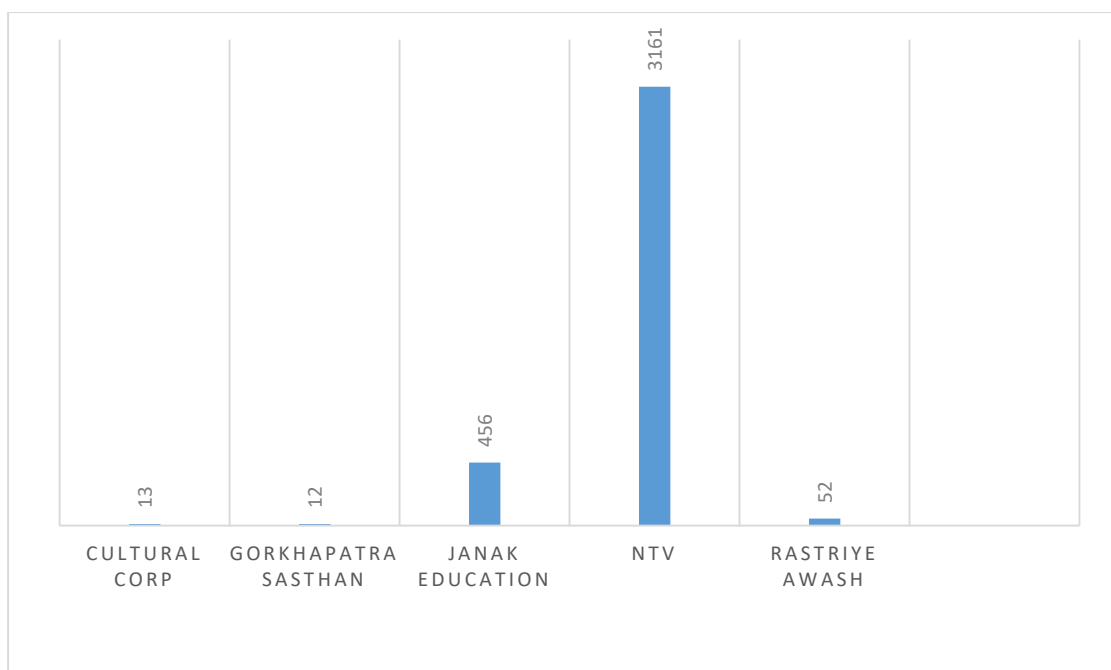
Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18

GoN has full ownership in all the five PEs in Social Sector. Dairy Development Corporation, Udayapur Cement Industry Ltd., GoN has full ownership in National Trading Ltd. and Nepal Food Corporation in Trade Sector, Hetauda Cement Industry Ltd. and Janakpur Cigarette Ltd. are fully owned by GoN in Industrial Sector. Overall 18 enterprises are fully owned by government, majority share over 17 enterprises and partial share in 4 enterprises. All the enterprises of social sectors are fully owned by government of Nepal so this sector has high chance of extinction risk, high corruption, high loss, highly politicized also. If there is participation of private sector too then overall performance of enterprises would be best.

#### **4.1.4 Share structure (in million)**

All 5 enterprises of social sector are fully owned by government of Nepal there is no share of corporation and private sectors. The share of government over cultural corporation is Rs. 13 million, Gorkhapatra sasthan is Rs. 12 million, janak education material is Rs. 456 million, NTV is Rs. 3161 million and Rastriye awash is Rs. 52 million. The average investment of government is Rs. 1231.333 million in individual enterprises of social sector.

**Fig-6 Government investment over social sector enterprises in million**



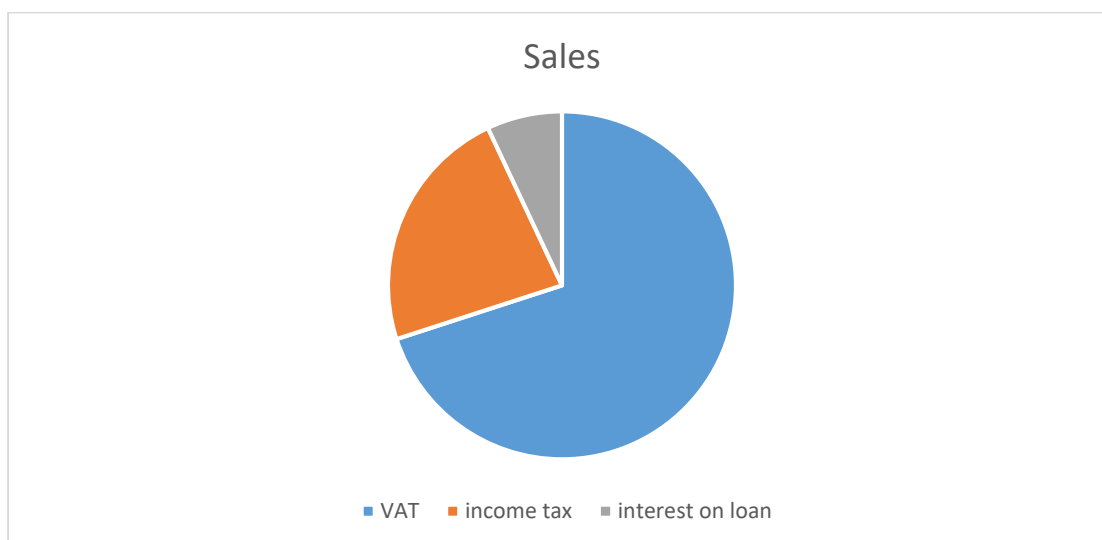
Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18

The above figure explains the share of government of over social sector. The share structure of social sector enterprise explains that social sector enterprise is fully owned by government of Nepal with very low amount. If there will be participation of private sector and public sector, then there will be no more misuse of resources and these enterprises perform very efficiently and timely.

#### **4.1.5 Revenue sources**

The revenue of social sectors is mainly from 3 sector only i.e. VAT, income tax and interest only. There is zero contribution of excise, dividend, royalty and form others sector. In percentage vat contributes on revenue is 70%, from income tax 23% and from interest on loan 7%. In amount only Rs. 105 million contributed by VAT, Rs. 34 million contributed by income tax and from interest only Rs. 11 million only. The overall contribution of revenue from social sector is Rs. 150 million only and it is about only 0.16% contribution.

**Fig-7 Revenue of Social Sector**



Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18

The revenue of this sector enterprise is very low and only three sources i.e. VAT, loan and Tax. To increase the revenue government should increase investment.

#### **4.1.6. Operational income (in million)**

The operational income of social sector enterprises are explained by the following table in brief.

**Table- 2 Operational income of individual enterprises of social sector  
(in million)**

SN	Enterprises	Actual in FY 2017/18	Change % compare to FY 2017/18	Target 2018/19
1	Cultural corp.	27	200	NA
2	Gorkhapatra sasthan	561	10	645
3	Janak education material	1223	28	1346
4	NTv	385	1	483
5	Rastriye awash	94	203	NA
	<b>Total</b>	2290	442	2474

Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18

The operational income of individual enterprises of social sector is increasing in FY 2018/19 in comparison to FY 2017/18. The total actual operational income of social

sector in FY 2017/18 is Rs. 2290 million among this amount the actual operational investment over cultural corporation is Rs. 27 million, Gorkhapatra sasthan is Rs. 561 million, Janak education material is Rs. 1223 million, NTV is Rs. 385 million and Rastriye Awash company is Rs. 94 million in actual.

The enterprises of this sector have planned to increase their operational income in upcoming fiscal year except Cultural corporation and Rastriye awash. It is good that they targeted to increase operational income which directly affects the policy, planning, execution and overall performance.

#### 4.1.7 Administrative expenses of individual enterprises (in million)

The comparison of administrative expenses among FY 2016/17, 2017/18 and 2018/19 which is gradually increasing in each enterprise.

**Table-3 Administrative expenses of individual enterprises (in million)**

S.N	Enterprises	Actual in FY 2016/17	Actual in FY 2017/18	Estimate for 2018/19
1	Cultural corporation	5	34	NA
2	Gorkhapatrasasthan	243	309	294
3	Janak education Material	122	223	230
4	NTV	428	405	424
5	Rastriye awash Company	45	53	NA
	<b>Total</b>	843	1024	948

Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18.

The actual administrative expense in FY 2016/17 of cultural corporation is Rs. 5 million, Gorkhapatra sasthan is Rs. 243 million, Janak education material is Rs. 122 million, NTV is Rs. 428 million and Rastriye awash company is Rs.45 million. During FY 2017/18 administrative expense of Cultural Corporation increased by Rs. 34 million, Gorkhapatra Sasthan increased by Rs. 309 million, Janak Education material

increased by Rs.223 million, NTV decreased by Rs. 405 million and Rastriye Awash Company increased by Rs. 53 million. The total estimation of administrative expense for FY 2018/19 is Rs. 948 million among them Gorkhapatra VSasthan estimated Rs. 294 million, Janak Education material 230 million, NTV Rs 424 million but cultural corporation and Rastriye Awash didn't estimate their administrative expenses.

From the table of administrative expense of social sector enterprises, the overall expenses were targeted to reduce in upcoming fiscal year, but individually Janak education and NTV have targeted to increase their administrative income but Gorkhapatra sasthan have targeted to decrease its administrative expense and remaining two didn't targeted their administrative expenses.

#### **4.1.8 Net profit/ loss**

By analyzing FY 2016/17 and FY 2017/18 maximum of public enterprises are victimized by loss status since last 2 fiscal year. In FY2016/17 all enterprises of social sector are on loss of Rs. 273 million, among its Gorkhapatra sasthan is in high loss which is about Rs. 101 million and very low of Janak Education Material which is about Rs. 16 million. And other enterprises like cultural corporation has Rs. 27 million losses, NTV has Rs. 96 million losses and Rastriye Awash has Rs. 33 million losses. In FY 2017/18 Janak Education Material has succeed to gain profit which is 137% of previous FY about Rs. 1170 million but remaining enterprises were undergoing to loss. Cultural corporation losses Rs. 44 million which is 84% more loss than previous FY, similarly loss of Gorkhapatra Sasthan increased by Rs. 201 million which is 299% more loss than previous FY, NTV reached in loss of 17% about Rs. 113 million and Rastriye Awash losses by 76% which is Rs. 8 million. The target for FY 2018/19 also estimate by enterprises, Janak Education material has estimated to achieve Rs. 140 million and Rs. 4 million profit amount by Gorkhapatra Sasthan and NTV has targeted to reduce its loss into Rs. 112 million but cultural corporation and Rastriye awash company has no any estimation.

**Table- 4 Net profit/ loss of individual enterprises (in million)**

S N	Enterprises	Actual in 2016/17 (all loss)	Actual in 2017/18	Change % in compared to 2016/17	Target for 2018/19
1	Cultural corp.	27 million	44 million loss	84 million loss	NA
2	Gorkhapatra sasthan	101 million	201 million loss	299 million loss	4 million profit
3	Janak Education	16 million	1170 million profit	137 million profit	140 million profit
4	NTv	96 million	113 million loss	17 million loss	112 million loss
5	Rastriye Awash	96 million	8 million loss	76 million loss	NA
		273 million			

Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18.

The status of profit or loss shows that the investment over enterprises are used properly or not. If investment was used properly without any misuse, then there is no situation of loss at least. Janak education material have gain profit since FY 2017/18 and targeted to increase profit up to 140 million in FY 2018/19 but remaining four enterprises are at loss since last five years. Gorkhapatra sasthan have also target to achieve profit four million in following FY 2018/19 this is very good situation which explains that enterprises are improving their financial status.

#### **4.1.9 Details of Government share, loan and dividend (in million)**

All enterprises of social sector are fully owned by government of Nepal. In FY 2017/18 the total share investment over social sector is Rs. 3694 million in which cultural corporation consist of Rs. 13 million, Gorkhapatra SasthanRs. 12 million, Janak education Material 456 million, NTV Rs. 3161 million and Rastriye Awash Company Rs. 52 million. The loan investment of Cultural Corporation is Rs. 238 million, Gorkhapatra Sasthan is Rs. 70 million and Janak Education Material is Rs. 890 million but other didn't have any loan investment. The social sector cannot provide any dividend in FY 2017/18.



**Table- 5 Details of Government share, loan and dividend (in million)**

Enterprises	share investment up to 2017/18 in million	loan investment up to 2017/18 in million	dividend up to FY 2017/18 in million
Cultural corporation	13	238	NA
Gorkhapatra sasthan	12	70	NA
Janak education	456	890	NA
NTV	3161	NA	NA
Rastriye Awash	52	NA	NA
<b>Total</b>	3694	1198	NA

Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18.

The share investment of social sector enterprise is fully captured by government of Nepal. There is no distribution of dividend up to FY 2017/18 but some enterprises like Cultural corporation, Gorkha patra sasthan and Janak education have financed money on lent which increases their income.

#### 4.1.10 Employment generation

Every year public enterprises creates vacancy for public which helps to reduce unemployment problem.

**Table-6 Employee number on social sector enterprise**

S.N	Enterprises	Actual in FY 2017/18	Projected in 2018/2019
1	Cultural corporation	87	NA
2	Gorkhapatra sasthan	341	NA
3	Janak education material	472	429
4	NTV	389	NA
5	Rastriye awash company	97	NA
	<b>Total</b>	1386	429

Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18

The total number of employee over social sector is 1386 among its Cultural Corporation has very few number of employee i.e. only 87, and highest number of employee is janak

education material i.e. 472. In Gorkhapatra Sasthan there is 341 employees, in NTV there is 389 employees and in Rastriye Awash Company there is 97 employees in FY 2017/18. For FY 2018/19 only Janak Education Material has projected 429 number of employees but other enterprises have no any projections about employee, but they will hire employees if needed only.

The above table explain about the employment status of social sector enterprises. Public enterprises are responsible for economic transformation and poverty alleviation of Nepal by providing employment opportunities, doing socio-economic activities and furthermore.

#### 4.1.11 Asset status (in million)

The assets of social sector enterprises can be classified into 5 main categories i.e. net fixed asset, investment, cash and bank balance, current asset and other asset.

**Table-7 Asset status of social sector enterprises in FY 2017/18**

Enterprises	Net fixed asset	Cash and bank		
		Balance	Current asset	other asset
<b>Cultural corporation</b>	182	5	NA	20
<b>Gorkhapatra sasthan</b>	92	298	263	97
<b>Janak education Material</b>	329	73	611	NA
<b>Ntv</b>	529	1432	375	NA
<b>Rastriye aswash</b>	209	81	2293	17
<b>Total</b>	1341	1889	3542	134

Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18

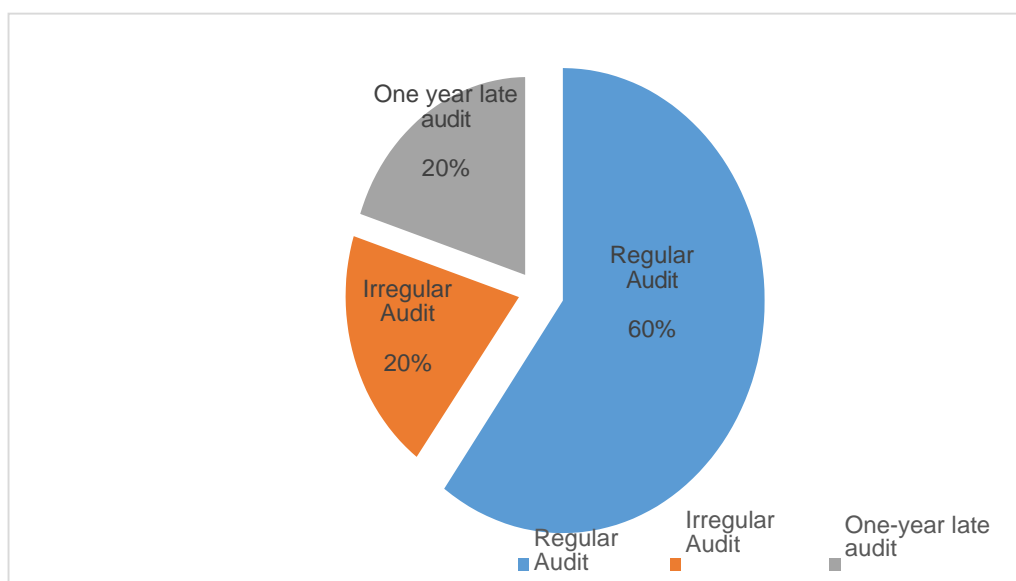
The total net fixed asset of social sector is Rs.1341 million among this Cultural Corporation has Rs. 182 million, Gorkhapatra sasthan has Rs.92 million, Janak Education Material has Rs. 329 million, NTV has Rs 529 million and Rastriye Awash has Rs. 209 million. Similarly, cash and bank balance of social sector is Rs. 1889 in total among this cultural corporation consist of Rs 5 million, Gorkhapatra Sasthan

consist of Rs. 298 million, Janak Education Material consist of Rs. 73 million, NTV consist of Rs 1432 million an Rastriye Awash consist of Rs. 81 million. The current asset of social sector is Rs. 3542 million in total among this Gorkhapatra Sasthan has Rs. 263 million, Janak Education Material has Rs. 329 million, NTV has Rs. 529 million, Rastriye Awash has Rs. 2293 million but their current asset of cultural corporation is not available.

#### 4.1.12 Audit status

In fiscal year 2017/18 audit status of social sector is classified into three categories on the basis of regularities. Only 60% of enterprises of this sector finished their auditing which consist NTV, Janak Education and Rastriye Awash, 20% enterprise has irregular auditing which is Gorkhapatra Sasthan and 20 percent of enterprise has on year in auditing process which is Cultural Corporation.

**Fig-8 Audit status of social sector enterprises.**



Source: Annual Performance Review of Public Enterprises Fiscal year 2017/18

The above figure explains that organization which have regular auditing and evaluation of financial transaction then there is no any financial dispute and scarcity. The proper use of finance in productive sector will increase and prodigal expense will reduce.

## **4.2 Roles and responsibility of social sector enterprises**

The major objectives to establish the PEs are to provide easy access of goods and services for the general citizens, generate employment, and contribute to the overall development of the nation through building socioeconomic infrastructure for the sustainable development of the nation. The aim of public enterprises is to provide mentioned goods and services to the public at affordable rate. There is an overall realization on Galbraith's conclusion, that affluent societies must strike a social balance between the production of private goods and the provision of public amenities. Public enterprises were created in most countries to accelerate economic and social development. The distinction also highlights the option that all governments have in seeking to achieve the Sustainable Development Goals: whether to provide goods and services essential to people's social and economic well-being through conventional ministries and agencies, through state-owned enterprises, or through other types of organizations. The major roles and responsibilities of social sector enterprises can be explained as follow:

**Public utilities concern:** For example, the enterprises of social sector are mainly for preserving culture through research, conducting various cultural programs, publishing newspaper, books and other educational materials, enhancing national facilities and consciousness through visual media and providing housing facilities for needy. They are essential for public welfare. Government has responsibility to provide such services at reasonable price. Public enterprises are important to provide public utility services at low cost.

**Contribution of Operating Income to Gross Domestic Production:** The contribution of operating income of PEs is 12.2 percent (Rs.22261.9 million) to the amended GDP of Rs.2643 billion in FY 2016/17. The contribution ratio of PEs to GDP from Social Sector is about 0.08 percent (Rs.3005 millions). The contribution of total operating income of PEs to GDP is average 12.5 percent in the last five years.

**Contribution to Revenue:** Public enterprises are important source of government revenue. They pay various types of taxes, such as customs duties, value added tax, excise duty, income tax and others. Such taxes are important in government revenue. Profit generated by public enterprises can be used to fund development programs. In FY 2016/17, PEs have deposited Rs.58744.9 million in government fund under

different revenue heads. According to Performance Review of Public Enterprise 2018 the contribution of social sector enterprises in revenue at FY 2016/17 is Rs. 215 million in different heading like, income tax (Rs. 56 million), VAT ( Rs.126 million), interest on loan (Rs. 18 million) and others (Rs. 15 million). In total social sector contributes 0.3% revenue.

**Employment creation:** Government has responsibility to create employment opportunities in the country. Private sector is not interested to create employment at the cost of profit. Public enterprises are important to generate employment opportunities in the country. Their size is big and employee need is also big. They safeguard interests of employees. According to According to Performance Review of Public Enterprise 2018 in every fiscal year social sector enterprise provides employment opportunity, in FY 2012/13, FY 2013/14, FY 2014/15, FY 2015/16 and FY 2016/17 total employee is 1902, 1651, 1463, 1487 and 1373 respectively in direct way and indirectly many people become entrepreneur and become employed this explains social sector enterprises helps to generate employment directly and indirectly.

**Social welfare:** Public enterprises provide essential goods and services at reasonable price. They also supply essential commodities such as housing and food grains at subsidized price by Rastriye Awash Company. They check price rise of essential goods by regular supply. This promotes social welfare in the country. PEs like NTV, Janak Education Material Company provides education and awareness from their side that increases the sense of public towards their right, laws as well as roles and responsibilities towards nation.

**Helps in Planned Development:** Nepal have five years' development plans for economic development. Public enterprises are given specific roles and targets in such plans. Public sector programs are also implemented by public enterprises. They are important for planned development of the country. In various periodic plan many enterprises opened and provide service for public.

**Helps in infrastructure Development:** Public enterprises like Rastriye Awash Company builds building for isolated, disadvantaged and marginalized population of country as well as develops settlement planning. They provide basic facilities of communication, electricity power, drinking water, education, health for needy. In 2042 B.S GoN declared to provide food, clothes, shelter, education, health and security till 2057 B.S. and to provide shelter for people under poverty line in rural areas it was assumed that

there is need to built 9.40 lakh houses with 30 metre square area. Various settlement planning have conducted through Rastriye Awash Company, settlement program like Punarbash Area Panchkumar, Dhanusa (400 hector land for 205 family), Nawalpur Settlement Planning (3846 hector land for 2477 family) etc. They require huge investment and long period is required to complete them. Private sector is not interested in such investment. Public enterprises are important to build infrastructure in the country.

**Helps in poverty alleviation:** Various programs and project conducted by social sector enterprises creates employment opportunity for public that helps to generate income permanently and temporarily. For example, many people like street vendor, shopkeeper, transportation service provider etc. directly and indirectly involved in income generating activities while Cultural Corporation Organization organized cultural programs. Similarly, Rastriye Awash Company provides employment while building houses, various stationary shops are conducting because of Janak Education Material Company, various online news portals and newspaper agencies are benefitted for publishing news and generate economy which is outcome of NTV and Gorkhapatra Sasthan. It removes economic inequality. It helps to develop different regions of the country. Therefore, it maintains living standard of the public and finally economic growth. Public enterprises are the drivers of economic growth in the country. They develop infrastructure facilities and operate public utilities. They use modern technology for production purposes. All these aspects help in acceleration of economic growth in the country.

**Balanced development:** Development works are done in planned and balanced way. It also provides decentralization of power, authority and make organization autonomous. It tries to develop all regions in harmonious ways. Balanced development is the main aim of public enterprise.

### **4.3 Problems and challenges of social sector enterprises**

From various performance analysis of public enterprises their results are always unsatisfied, public enterprises were engulfed by various problems and challenges. This fiscal year (FY 2017/18) overall economic status of this sector is in loss. There is very low investment of government sector so that these enterprises are not able to perform their activities and lead toward profit. The basic objective of this sector is to deliver goods and service at affordable rate by bearing rules and policy made by government but sometime those readymade plans and policies can be burden for market competition, price determination and cost benefit analysis. Some enterprise has lack of clear objectives this also forces enterprises into illusion to functioning, lack of policy clarification and conflict between economic and non-economic objectives, shortage of skilled, experienced & competent managers and their relatively lower salary & perquisites, constant interference in day to day activities of the enterprises by the Government, the ministers, the politicians & other government agencies, delays in decision making by appointing committees, decisions are based more on political ground than on economic, bureaucratic style, lack of concern and lack of commercial approach, weak labor relations, inadequate cost control measures, administered prices not related to input costs based on noneconomic factors and even when chronically sick, allowing the unit to exist on political and social grounds, allowing it to incur more loss with lowering morale of the management and workers. According to Annual Performance Review of Public Enterprises published by Ministry of Finance various problems and challenges on various aspects are examined in state owned enterprises which can summaries as:

- i. From Structural Aspects: The structural objective of PEs is to provide basic goods and services to all citizens by putting deprived class and communities in and on other hand PEs are directed to operate by following the concept of professional and basic market principles while remaining under the government ownership and control. So there is no clarity in structural objectives of PEs financial capacity is not properly used.
- ii. From Institutional Aspect: There is dual role of PEs and Line Ministry of Finance in the role of operation and management. Ministry of Finance shows interest on feeling of ownership but become sidestep when issues comes, so there is problem and challenge to make responsible for the performance PEs.
- iii. From Managerial Aspect: Most of PEs are engulfed under weak management and performance system. There is scarcity of skillful employee according to nature of tasks

and huge number of unnecessary and unskilled employee existed. The management is not technology friendly, transparent and efficient. So, there is challenge on proper balance between autonomy and control system of enterprises.

- iv. From Commercial Aspects: PEs have not been able to adopt strategic business methods, long- term business policy and plans for systematic development. Due to lack of regular auditing, monitoring and evaluation that directly hinders the productivity and efficiency of PEs. So here challenge arise to maintain product and productivity of enterprises as well as competition on market and promotion of innovation and entrepreneurship.
- v. From Aspect of Fiscal Efficiency and Responsibility: Because of irregular financial audit of most of enterprises this shows weak financial discipline of PEs. And only two PEs (Nepal Doorsanchar Company Limited and Nepal Stock Exchange Limited) have prepared their financial reports under Nepal Financial Reporting System (NFRS) until now. Some enterprises have developed financial auditing committee but that committee are not properly formulated if formulated properly they are unable to conduct regular internal audit process. So here is challenge to maintain financial balance and reduce financial risk.



## **CHAPTER V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

As observe from various industries within a given national economy, see that the lead in development shifts from one branch to another. A rapidly developing industry does not retain its vigorous growth forever but slackens and is overtaken by others whose period of rapid development is beginning. Industrial development was once considered the central engine of growth and development and this was reflected in the usage of the term industrialized to denote high-income countries.

The overall financial status of PEs is improving in FY 2017/18. The wholly owned and majority shareholding PEs have increased their operational income by 21.27 percent in this FY compared to the last FY and only 26 enterprises are capable to achieve profit. The share investment of Government of Nepal (GON) in FY 2017/18 is Rs. 237 billion and bonus amount is Rs. 990 million where bonus amount increased 27.28%. From this year GON increased ownership in National Electricity Association (NEA), hydropower, developmental company and Civil Aviation Authority of Nepal (CAAN) and the loan investment of government over 39 enterprises reached up-to Rs. 1640 billion. There is no regular audit of all public enterprises so it is hard for financial discipline.

In FY 2017/18 there is only 1% of investment over social sector which is Rs. 4892 million but there is 73% among total investment is done over Public Utility Sector which is Rs. 156846 million this shows that how the performance and output differ between these two sector. Although there is full ownership of government over social sector enterprises these sector is incapable to control the market monopoly. Social sector enterprise collects 70% of VAT, 23% income tax and 7% interest on loan as revenue in FY 2017/18, every year administrative expenses of this sector is increasing but overall administrative expenses of public enterprises are decrease by 4.85% in average. Social sector is in loss status since last 5 fiscal years and accumulate loss amount is Rs. 3419 million so that dividend amount also zero. Only 3 enterprises do regular audit but one enterprise does audit irregularly and one enterprise does one year late in auditing process. The net fixed asset of social sector is Rs. 1341 million, cash and bank balance Rs. 1889 million, current asset is Rs. 3542 million and other asset is

Rs. 134 million.

Similarly, this sector also responsible for service delivery and goods supply for public in affordable price, various awareness programme also conducted by visual way, various magazines, newspapers, books and educational materials also provided by this sector. Major roles of Social Sector Enterprise are: contribution on gross development product nation, contribution revenue of government, market capitalization, human resource management, infrastructure development, social awareness and social welfare, poverty alleviation and many more.

And finally, Social Sector Enterprise have various problems and challenges on various aspects i.e. structural aspect, institutional aspect, managerial aspect, commercial aspects and fiscal efficiency aspect.

## **5.2 Conclusion**

This study concluded that the macroeconomic performance, roles and responsibility and problems and challenges on social sector enterprise.

From macroeconomic perspective major macroeconomic indicators were described. From five years' investment status there is very low investment in social sector in comparison to other sectorial enterprises this shows that discriminatory behavior of government towards social sector enterprise. Only 1% of investment is done over social sector enterprise among total investment during fiscal year 2017/18. Net capital investment among social sector enterprise Cultural Corporation and Gorkhapatra Sasthan has very low investment, so that these companies cannot uplift their performance. But there is huge investment over Rastriye Awash and NTV. On the basis of ownership structure all social sector enterprise are owned by government. Although having full ownership of government this sector cannot control the market monopoly and racketing. The major revenue source of this sector enterprise is based on VAT which is about 70% but very few contribution of interest on loan and income tax. The operational income of social sector is also increasing way but most of the operational capital is expense over administrative maintenance which has been seen since last two fiscal years 2016/17 and 2017/18. But for FY 2018/19 some enterprise of this sector estimate their administrative expense low in comparison to previous fiscal year. It means those enterprises are focused on reducing administrative expenses and increasing investment over infrastructure development. The net profit and loss of social

sector can be standardized as loss status, since last 5 fiscal years these enterprises are not able to pay any dividend to government. But some enterprise of this sector estimate their profit achievement goal for fiscal year 2018/19 it means these enterprises were conscious about their poor performance and negligence behavior of performance status since previous fiscal year.

Similarly, the roles and responsibility of social sector are focused on public utility sector, employment generating process, for generation of government revenue, path of balanced development and economic growth, supports and follow balanced development, infrastructure development, helps to reduce income inequality by creating employment. If all these roles and responsibility are fulfilled by social sector enterprises, then there shall be welfare state and state led market economy can feel by public. As well as this sector also provides employment opportunities through merit system and contract system both so sector helps to reduce unemployment problem too. The asset of this sector classified into five categories among those current assets of this sector is very high, then cash/bank balance, net fixed asset and other assets in descending way. On the basis of audit regularity social sector also classified into three types regular audit, irregular audit and one-year late audit. This situation explains that this sector is also delays the financial management

Although, having opportunities of social sector enterprise there are various problems and challenges are existed. Various challenges have seen in public enterprises of Nepal which are: how to innovate new techniques and strategies for development of overall performance and generate output in target amount, Inefficient Management, Delayed Decisions, Excessive Government Control, Political Interference, Under Utilization of Capacity, Time and Cost Over-Runs, Problems of Price Policy, Over Staffing, Lack of Motivation, unmanageable Audit and Inspection process, unsatisfied consumer's Interests.

In overall, the macroeconomic indicators were observed, examined and concluded that microeconomic indicators of enterprises are perfect but their performance is not better and satisfied enough. Because of unfair budget distribution and investment pattern over PEs many of objectives are not completed and there are problems in objective itself unclear. Due to lack of effective management system utilization of means and resources of PEs is out of track. Because of rigid organizational structure and administrative

process there is delay in taking bold decisions. When macroeconomic indicators are under pressure and suppression then there is problems to execute roles and responsibilities of PEs as well as problems and challenges are increases frequently.

### **5.3 Recommendations**

The performance of public enterprises is very poor because of various problems and challenges in past time as well as in future. So various reform is needed for the progression of public enterprises. Although having problems, challenges and poor status there is huge opportunity for economic development through public industries. PEs have been playing an important role in the financial sector development, basic infrastructure development, delivery of basic goods and services, reducing artificial deficiencies, as well as controlling cartel and syndicate system and so on. Mainly research has not been conducted on the sector of public enterprises, the value of enterprises has not been aware to the people of countryside. There is huge attack of cartel and syndicate in public market so government must able to break such circumstances.

On the basis of findings on Social Sector Enterprises there is no need drastic change but some managerial skills and technological improvement can make perfect PEs. But some major recommendations according to findings are as follows:

To make PEs financially and professionally capable and enable, it is necessary to merge the similar nature of PEs and divest unnecessary ones. There is a need to establish new type of PEs under the concept of government-private partnership or enhancing the capacity and technological expansion of existing PEs for infrastructure development, transportation and construction services as well as easy access on delivery of basic goods and services.

Mainly there is problem of competent authority so enhancement of public authority towards autonomous, competent, accountable and independent. For this mechanism single door regulatory system is needed.

Unnecessary external interference and control over management and operational team should by prohibited by political leaders. The roles and responsibility according to laws must be followed by responsible authority.

Another part is that to make accountable and responsible public enterprise the bonding between board of director, manager, auditors, controlling team must be active and

powerful, it reduces the communication gap inside enterprise.

To increase the effectiveness of PEs, it is essential to develop financial capability, technological capacity, human resource capacity, administrative and professional capacity. For this, a practice has to be developed to appoint the Chief Executive, Board Members and high-level management based on merit system as well as to evaluate their performance by a competent and independent agency on regular basis.

In the context that the country has been transformed from unitary system to federal systems of governance, PEs have to be restructured based on federal systems along with a system has to be developed to operate and manage them at federal, provincial and local levels. For this purpose, the first condition is to develop the capacity of provincial and local levels, to establish the legal and institutional infrastructures, and to develop the managerial capacity.

Enterprises development was once considered the central engine of growth and development and this was reflected in the usage of the term industrialized to denote high-income countries. Governments therefore took an active role in their economies' development by supporting and protecting strategic industries or, in other words, by using industrial policy. Developing country governments should take a "hands-off" approach to development and through processes of deregulation, liberalization and privatization allow for the market to identify and refine their country's "comparative advantage" in production and trade. Comparative advantage, however, is a static concept which suggests that a country should specialize in what it is best situated to produce according to its factor endowments.

While this may help the country become highly efficient at producing resource-based goods, it provides little guidance on how it could move into producing goods that are not resource-base e.g. high-tech products. This process of economic transformation and movement into new, more complex activities require industrial policy.

Industrial policy is back on the agenda. It is now widely accepted that those countries which managed to catch up with the old industrialized, high income countries are the ones whose governments proactively promoted structural change, encouraging the search for new business models and channeling resources into promising and socially desirable new activities.

Efforts to build up a manufacturing sector have become much more difficult for developing countries because they are strongly exposed to competition from countries

that have already developed sophisticated industrial capabilities based on cutting edge technologies and that have achieved economies of scale. In a globalized world economy, developing country producers are increasingly competing with foreign manufacturers in both domestic and international markets but often lack the (time and opportunity to develop the) capabilities to be competitive in either cost or quality.

We live in an age of unprecedented information. Through a solid analysis and understanding of their current industrial performance and the performance of others, developing countries have the opportunity to design evidence based industrial strategies to ensure more effective and adaptive policy interventions. Countries like Nepal can learn from role models (i.e. successful industrialisers) and examine the power of the manufacturing sector to spur structural transformations. While economic growth often features among the main development objectives of lower-income countries (which is reasonable given low levels of economic output and material need fulfilment), recent history has shown the devastating consequences of following a narrow-minded “growth first, everything else after” approach.

I recommend lower-income countries like Nepal can learn from past development failures and to pursue innovative new industrial strategies to ensure a more sustainable and socially inclusive development trajectory that maximizes the positive effects of industrialization while minimizing its negative effects.

Recent economic development is at the peak combination of inclusiveness and sustainable development. The inclusiveness is the overriding, supreme, importance of broad-based need fulfilment (e.g. poverty alleviation), through active participation in the economy and sustainable development is the importance of taking a longer-term perspective and recognizing the need for an economic structure that is resilient and respects the limits of the ecosystem, so that growth today does not come at the expense of prosperity tomorrow. The development of an industrial structure that contributes to widespread needs fulfilment without undermining future generation's ability to meet their needs and we need to explore how industrialization can contribute to inclusive growth.

For sustainable economic growth through industrial development first start with a serious recognition of poverty, of a lack of needs fulfilment, which affects a large segment of these countries’ populations due to insufficient resources. Evidence shows

that no country has been able to achieve significant income growth and poverty alleviation without structural transformations and economic diversification. In order to ensure basic needs fulfilment an economy needs to provide adequate incomes and a variety of products for their population. The growth and expansion of the manufacturing sector plays a critical role in this development process.

Through more innovative production processes there is a “creative destruction” of less productive firms who are outcompeted by more productive ones, resulting in higher overall productivity in the economy. This dynamic process of productivity enhancement, which translates into greater output, in an economy is commonly seen as a main driver of economic growth.

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