

ISSUES IN NEPAL

(with special reference to the economic situation and structure)

Submitted to the University of Poona
in partial fulfilment of the requirements of the
Master of Philosophy Degree in Economics

by

JAYA KRISHNA PATHAK

Gokhale Institute of Politics and Economics

POONA - 411 004

August 1979

PUBLIC ENTERPRISES IN NEPAL

(with special reference to evolution and structure)

submitted to the University of Poona

**in partial fulfilment of
the requirements of the**

MASTER OF PHILOSOPHY

Degree in Economics

by

JAYA KRISHNA PATHAK

Gokhale Institute of Politics and Economics,

Pune 411004

August 1979

P R E F A C E

After the overthrow of the feudocratic Rana regime in 1951, Nepal embarked upon the rapid path of economic development. In order to cope with such an arduous task, new corporate culture was adopted by providing them necessary finance. But simply creating new institutions and supplying them necessary funds is not enough. What is more important is the planned development of the institutions with defined tasks and sufficient functional autonomy, and an effective chief executive who can provide leadership. If these minimum requirements that are vital for the success of an institution do not exist, then simply starting new corporation would prove as an indirect impediment to our process of development. It would amount to a grand wastage, and misutilization of resources which our starving economy can hardly afford at the present. But there has not been any serious effort to trace out the evolutionary trend of public enterprises in Nepal, and to analyse and study the system of board of directors who are responsible for the overall growth and development of the enterprises they are leading.

The desire to probe into the above situation prompted me to choose the topic "Public Enterprise in Nepal (with special reference to evolution and structure)". In this process I am extremely grateful to Dr.A.S.Nadkarni for his valuable supervision. The present work would not have probably taken the present shape

in a short time without the invaluable supervision I received from him in the course of its preparation.

I am also extremely grateful to my teachers, Professor B.S.R.Rao and Professor K.K.Dasgupta, who were kind enough to suggest and clarify my doubts, and encourage me to write from time to time.

I acknowledge my debt to Professor H.K.Paranjape who was kind enough to go through my earlier writing and make a number of useful suggestions. ~~for~~ ~~the~~ ~~preparation~~

Finally, my special thanks are due to my wife, Kiran whose co-operation also helped me in the completion of the study and to Mr.G.C.Kadhe and Mr.K.P.Limbore for excellent typing in time.

Gokhale Institute of
Politics & Economics,
Pune 411004.

August 18, 1979

JAYA KRISHNA PATHAK

C O N T E N T S

Preface	iii - iv
List of Tables and Appendix Tables	vi
CHAPTER I : INTRODUCTION	1 - 15
CHAPTER II : DEFINITION OF PUBLIC ENTERPRISE IN NEPAL FOR THE PRESENT PURPOSE AND CLASSIFICATION	16 - 25
CHAPTER III : EVOLUTION OF PUBLIC ENTERPRISES IN NEPAL	26 - 35
CHAPTER IV : NEED FOR PROFIT AND SOME ASPECTS OF FINANCIAL PERFORMANCES OF PUBLIC ENTERPRISES IN NEPAL	36 - 67
CHAPTER V : MANAGEMENT STRUCTURE OF PUBLIC ENTERPRISES IN NEPAL	68 - 95
CHAPTER VI : MOTIVATION AND FINANCIAL SETTING	96 - 108
CHAPTER VII : CONCLUDING REMARKS	109--112
SELECT BIBLIOGRAPHY	118 - 124

LIST OF TABLES AND APPENDIX TABLE

Table No. 1	Composition of Capital Funds Investment	53
Table No. 2	Magnitude of Gross Saving	56
Table No. 3	Financial Contribution to the Treasury	59
Table No. 4	Rate of Return	64
Appendix Table No. 1	List of Public Enterprises in Nepal as per our definition (includes Acts of Incorporation, Date of Establishment, Main Business, Concerning Ministry, Foreign Assistance and Remarks)	113-117

CHAPTER I

INTRODUCTION

Introduction :

Till the end of the nineteenth century in the economic and political arena of the world the philosophy of laissez-faire propounded by the classical economists was supreme. At that time the function of the state was considered to be to govern, and the economic activities were left in the hands of private citizens. It was strongly believed that maximization of private benefit also leads to the maximisation of social benefit. However, the two world wars, success of economic planning in the Soviet Union, Great Depression of 1929 and the rising influence of Keynesianism taught the lesson that a government cannot remain simply like a silent spectator. It was increasingly felt by the governments that it should actively participate in the economic affairs of the country especially in the under-developed and the colonial countries, because people of these long exploited countries were anxious for achieving an increase in their standard of living in the shortest possible time. Government is, therefore, called upon to take the initiative in the development process of the country very actively. For this purpose public sector enterprises have been advocated.

Presently, public enterprise has become a worldwide phenomena. The extent of the role assumed by public enterprises in stimulating economic activity varies according to the political compulsions of the regime. In socialist countries like the Soviet Union, China and Yugoslavia, where there is virtually no private sector, public enterprises have emerged as the predominant institutional mechanism for development. In the market economies of both the developed as well as developing countries too, they have come to play an increasing role. In the developed countries like the U.K., France and Italy, a sizeable growth in the assets of public enterprises has been registered. But still in these countries private enterprises remain the primary engine for economic activity, and public enterprises act as subordinate to and supportive of private enterprises. In the developing countries, they can play the role of both promoters of as well as instruments for development. But in the South Asian countries such as Nepal, India, Pakistan and Sri Lanka, public enterprises basically played the supportive role in the development of the bourgeoisie.

The developing countries within the system of a mixed economy have accepted public enterprise as a device to accelerate the pace of national development. Even in some developed countries it has been entrusted with a lion's share both because of ideology and also because "there

has been the general acceptance of the view that government is in a preferred position to provide certain services such as education, public health, highways, postal system more effectively and efficiently than any other agency or society".¹ Mr.Hanson observes : "Whatever the ultimate perspective may be, the country anxious to develop economically has no alternative but to use public enterprises on a considerable scale, at the very least in order to 'get things going...".² So, the public enterprise has attracted worldwide attention. Now, in the following section a brief review of the public enterprise in Nepal shall be made.

Nepal

After the fall of the Rana regime in 1951, the economic and social development has been considered as the primal objective in Nepal. To achieve this end, the country has adopted the "mixed economy model" with the implicit assumption that both the state and the private sector can complement each other in the development process over time. Accordingly, large modern corporations have been established under the sponsorship of the government in various sectors of the national economy.

¹ Ginzberg, Eki, Hiest, Dale E. and Reabeuns, Beatrice G., The Pluralistic Economy, McGraw Hill Book Co., 1965, p.18.

² Hanson, A.H., Public Enterprise and Economic Development, London, 1959, p.23.

The evolution of public enterprises in Nepal starts only during the First Plan (1956-61)³, and prior to this, there were very few departmentally run enterprises like the railways, the posts, the telegraph, electricity generation and distribution, etc. Presently, there are 45 enterprises under our definition⁴. After 1960, the expansion and growth of public enterprises has taken place in a large scale. It may be because of the System's aim "to promote the welfare of the people by setting up a society which is democratic, just, dynamic and free from exploitation by bringing about harmony in the interests of different classes and professions from a comprehensive national outlook."⁵

In Nepal public sector investment has assumed an important role and accounts for a major portion of the plan outlay. For example, in the current plan (1975-80), out of the total plan outlay of Rs.11404.0 million (maximum), the total public sector investment (including Panchayat Sector) accounts Rs.8732.0 million which is 76.57 percent of the total outlay.⁶

³ See : Chapter III of this dissertation, Evolution of Public Enterprises in Nepal.

⁴ See : Chapter II for the definition of public enterprises in Nepal.

⁵ HMG, Ministry of Law and Justice, Law Book Management Committee, The Constitution of Nepal (Amended), July 1976 (Reprint), p.9.

⁶ HMG, National Planning Commission, Fifth Plan (1975-80), Kathmandu, 1975 (in Nepal), p.61.

In the forthcoming Sixth Plan (1980-85) too, out of the total plan outlay of Rs.28,000 million, the total public sector investment including Panchayat sector accounts to Rs.22,500 million, that is, slightly over 80 per cent of the total outlay⁷.

The total capital funds investment⁸ in the public enterprises has tremendously increased. At the end of the F.Y. 1974-75, the total capital funds investment in 44 enterprises which come under our definition was Rs.1261.6 million.⁹ These enterprises have provided jobs to 18,155 persons¹⁰ which is 0.38 percent of the economically active population of the country.

Thesis :

The evolution of public enterprises in Nepal was not a planned one with certain prethinking. Hence, it naturally

⁷ HMG, National Planning Commission Secretariat, Basic Principles of The Sixth Plan (1980-85), Kathmandu, April 1979, p. 30.

⁸ Total Capital Funds Investment is equal to the total equity of both His Majesty's Government (HMG) and private parties, long-term loans, subsidy and grants, reserve fund and undistributed profit/loss. However, it excludes the share capital owned by parent or shareholding public enterprises including their long-term loans to the public enterprises.

⁹ The data for one enterprise : Seti-Mahakali Paddy & Rice Export Co., is not available.

¹⁰ The data has been compiled and estimated from the Profiles of Public Enterprises in Nepal, HMG, Office of the Corporation Co-ordination Council, Kathmandu, 1978 (hereinafter referred to as 'The Profiles').

follows that the organisation and management, though apparently purporting to be autonomous, were in fact a replica of government administrative departments with their inherent characteristics of bureaucratic control, red-tapism and economic inefficiency. The financial performance of the public enterprises in Nepal has been poor, and it has not been successful to mobilise the internal resources needed for the economic development of the country, as envisaged in the country's Second Plan - a three year plan (1962-65).

In Nepal, the political attitude is not involved behind the adoption of public enterprises. In one way, we can even say that the approach is rather pragmatic, that is, depending upon the need. In the first instance, state has to move forward because there is dearth of private entrepreneurship in Nepal. Secondly, the foreign aid-givers, especially the socialist countries, do not want the enterprise they built to be managed by the private entrepreneurs. Thirdly, the state has launched ambitious development programmes. Such a development campaign needs new resources and entrepreneurship. Since local entrepreneurs are shy, the only alternative open for the state is to directly engage in establishing new enterprises. This approach while solving the first two problems, enables the government in mobilising internal resources, as well. This is what the government seems to have in mind while launching the country's Second Plan.

Now in the following section we shall move to formulate the criteria for evaluating the performance of public

enterprises. However, before proceeding with a discussion on the application of evaluation criteria¹¹ to assess the performance of public enterprise, a brief remark on the need of assessing the operation of the public enterprises is warranted. Among a number of considerations, two specific factors require performance evaluation. First, it is important for the government to know the impact of the working of any goal-oriented organisation in the context of the national objectives that guided the adoption of such an institutional medium. Second, since economic development is a continuous process of change and innovation, the change agent or innovating variable in business enterprise being human factor needs constant stimuli to work for better results. This requires the creation of provision for managerial incentive in a given enterprise no matter under which economic set up the enterprise is functioning. As a result, there arises the need of developing success indicators that are to be used for evaluating and rewarding enterprises. There is no denying of the fact that the question today is, indeed, and should be one of choosing the appropriate technique of evaluation to be used. But, the question of choosing the appropriate technique to be used in the field of

11

For a discussion on this aspect, see : H.K.Paranjape's "Measurement of Management in the Public Sector", in The Indian Journal of Public Administration, Vol.VI (1960), pp.159-176. He has devised some methods including profitability and cost reduction for measuring the effectiveness of management, though there are certain qualifications.

public enterprises is a highly controversial matter, and difficult one to decide.

No two persons will agree upon a criterion to be pursued in assessing the achievement of a given organisation operating in a given country. The emphasis on the use of specific criteria is fundamentally based upon the socio-political environment of a given country where the enterprise to be assessed is located. In virtually all modern communities, the paramount economic goal is the satisfaction of the pressing needs of the economy. In other words, in economic terms, it means the rapid economic growth in gross domestic product. But the means to achieve this economic goal differs widely among nations.

In the U.S.A. where free competitive market forces play an important role, pricing system helps to allocate the resources. But the socialist countries like the U.S.S.R. and the G.D.R. have stressed, without question, upon the state management of all the productive forces. However, within the "mixed economy model", still other countries especially the underdeveloped countries have followed between the two extremes. For example, India envisaged the adoption of public enterprises as a means towards ultimate socialisation of productive forces.

Criteria for measuring performances :

In choosing standards for evaluating the performance of public enterprises it would be almost impractical to try

to have a set of rigid definitions. Depending upon the nature of enterprises and objectives assigned to it, the criterion for evaluating performance has to be adjusted and modified from time to time. Of late, there has been a striking emphasis in the Soviet Union, the home country of thousands of public enterprises in the use of the profitability in evaluating enterprises' performance. Prof. Evsey Liberman, a prominent Soviet economist, advocated the use of profit motive in conjunction with other factors.¹² After a long controversy and deliberations since Lenin came to power, the Soviet political thinkers considered the proposition seriously. This is evident from the statement of Khrushchev, the then Prime Minister of the Soviet Union, at the Twenty Second Congress of the Communist Party in October in 1961.

Since one of the main reasons for creating public enterprises in the underdeveloped countries is to raise the internal resources by way of dividend and profit, application of profit should have an important place in any performance evaluation scheme. In fact, this is also the case with Nepal. But this does not, of course, mean that profitability is the sole success indicator of a given enterprise in achieving its

¹² Richman, Barry M., Soviet Management, Prentice Hall, Inc., N.J., 1965, p. 359.

objectives. Financial data alone is not enough to show the extent of impact of a given institution upon the economy. Still financial data is the indicator in both the developed as well as developing countries. Since most of the enterprises in Nepal operate in a monopoly atmosphere, what we feel is that profitability criterion should be adopted only if we consider other considerations as the relevant constraints to the objective function.

Of course, for evaluating the performance of public enterprise certain other criteria could be developed. For example, labour efficiency may be taken into account. However, labour efficiency is akin to the concept of profitability, because profitability is the result of labour efficiency. Improved labour relations may also be taken as one of the criteria. But in Nepal there is no labour problem at all, and so, this criterion may be taken as fulfilled.

Cost reduction is also a criterion for measuring the performances of public enterprises. In other words, the management efficiency can be evaluated by the management's success in keeping actual costs within limits. But in Nepal this measure has not been adopted so far. In fact, most of the enterprises are overstaffed, and it has become a place for creating jobs.

Fulfilment of the targets set by the external agency may also be taken as a sign of efficiency. This has to be fixed on the basis of the installed capacity. But this will

have no meaning if the targets are to be fixed on the basis of the enterprises' reports. In Nepal, only for the few enterprises, the targets are set by National Planning Commission. However, these targets are seldom fulfilled.

Consumers' satisfaction should also be considered while taking into account the efficiency of public enterprises. But in Nepal the market is sellers' oriented, and this aspect has not been paid attention.

The performance of public enterprises could also not be compared with other enterprises as there is no similar enterprise for comparison.

In fact, the need to explore the possibilities of constructing an overall 'index of efficiency' is felt. Such an index should also take into consideration the direct and indirect social costs and benefits accruing to the community as a result of the setting up of the enterprise. But, there are conceptual, technical and statistical problems in measuring these costs and benefits. Many social costs and benefits are not amenable to measurement with any degree of precision, and there may crop up the problem of assigning appropriate weights to different items of economic and social costs. But in Nepalese context in the absence of relevant information and data, and much needed research in these fields, it will precisely be a value judgement. In Nepal, for all practical purposes, no concept has been developed in these fields. For example, there is virtually

no labour unions, and the market is sellers' market. As a result, no attention has been paid to the labour and consumer aspects. Moreover, the criteria should be especially related with the individual enterprise.

In Nepal, so far profitability is the only criterion that has been accepted even by the Government. So we shall later attempt at applying profitability test in Nepali public enterprises. However, it should be noted that profitability depends, among other things, upon the autonomy, and several other factors.

Even Mr. Hanson, an authority on public enterprise agrees that in a less developed country, there is a strong case for some profit-making on the part of some public enterprises. However, he hastens to add that the enterprises should only be able to make its profits as a result of efficiency and not through exploiting monopoly position.¹³

Thus there should not be any objection to public enterprise being conducted on a profitable basis in a developing country like Nepal, but this should not be the main purpose or the raison d'etre of any form of public enterprise.¹⁴

¹³ Hanson, A.H., Managerial Problems in Public Enterprises (under the auspices of the Indian Institute of Public Administration, New Delhi), Asia Pub. House, Bombay, 1962, p.133.

¹⁴ For the search for efficiency and performance (of British nationalised industries), Read : W.A. Robson's Nationalized Industry and Public Ownership, Ch.XV, op.cit.

Plan for the present dissertation

This study is mainly concerned with the critical review of the literature relating to evolution and structure of public enterprises in Nepal within the framework outlined under Thesis.

In the second chapter, public enterprises in Nepal for the present purpose have been defined, and classification of public enterprises on the basis of (a) function, (b) organisational pattern and (c) market situation have been made.

Chapter III discusses the evolution of public enterprises in Nepal and comes to the conclusion that government's decision to establish public enterprises for accelerating the pace of our economic development was neither a part of an overall development strategy nor was it based upon any political ideology and perspective thinking.

Chapter IV argues in favour of the profits especially in the underdeveloped countries and attempts at rationality of applying profitability test in the Nepali public enterprises. In this section, sector-wise as well as aggregate performance evaluation based on public enterprises' contribution, capital employed, networth, gross profits and dividends shall be made. This section will show that the objective of creating public enterprises for augmenting the internal resources required for speeding up the rate of our economic development has been primarily defeated.

The question of government-enterprise relation and autonomy, and the management structure have been dealt with in chapter V. The chapter comes to this conclusion that the undefined and confused relation between the Government and the public enterprises has been the critical factor in arresting the rapid development of the public enterprises in the country. It further concludes that public enterprises in Nepal are given procedural autonomy only in words and not in action. As a result they are gradually becoming a part of regular bureaucracy with the same sort of official procedure.

Regarding the composition of the board of directors and educational background of the chief executive, we shall come to the conclusion that public enterprises in Nepal have been the centre for dumping the top civil servants, and their qualifications range from education and culture to engineering and medical science. A wide representation in the Board has not been made. It is mainly dominated by the civil servants and the representation of workers and consumers is completely non-existent.

Chapter VI on financial setting and motivation in public enterprises outline that the financial management in the Nepali public enterprises is the weakest point and there is virtually the absence of incentives for all employees.

Finally, the last chapter brings out conclusions that

flow from the study of this subject spread over the earlier chapters.

Sources :

The data used for this study have been basically compiled and estimated from the Profiles of Public Enterprises in Nepal.¹⁵ A bibliography appended at the end of this work would give a full idea of the sources consulted for this study.

Limitations of the Study :

Due to the following reasons the present study has limitations such as : (1) The literature on public enterprise is negligible for Nepal. (2) The public enterprises in Nepal are scattered over different parts of the country. So the writer had no opportunity for survey research, interviews, and collection of necessary materials because of time limitations. Still, discussions with some of the chief executives were held.

However, the present writing will help to have an idea about the public enterprises in Nepal under the existing situation in a historical perspective.

¹⁵ Published by HMG, Office of the Corporation Co-ordination Council (now dissolved), Kathmandu, 1978 (hereinafter referred to as The Profiles).

CHAPTER II

DEFINITION OF PUBLIC ENTERPRISE IN NEPAL FOR THE PRESENT PURPOSE AND CLASSIFICATION

Definition

Here in the subsequent sections the words 'Public Enterprise', 'Public Corporations', 'Public Sector Enterprises', 'State Enterprise' and 'Government Enterprise' are taken as synonymous.

The public enterprise is taken to mean an entity -
(i) which is fully or partially owned by the government,
(ii) where the Chief Executive is directly nominated by His Majesty's Government, and (iii) which is established either under the special charter, Nepal Company Act, or the Corporation Act with a view to selling goods or services to the general public on a more or less commercial basis; or where there is implied assumption that the organisation should run at break even point without incurring losses in order to avoid government subsidies.

Under the above definition, mixed enterprises like the Raghupati Jute Mills Ltd., is taken as public enterprise for the General Manager is directly appointed by the government. On the other hand, the Nepal Bank Ltd., where the government is also a major shareholder¹ is excluded because the government

1. In Nepal Bank Ltd., the government's share participation is 51 per cent of the total share capital.

does not intervene directly in the appointment of the Chief Executive of the Bank. The definition also does not include the quasi-public enterprises.² At the same time the subsidiary public enterprises are also excluded.³ Other organisations like Rastriya Samachar Samiti, Nepal Rehabilitation Company, Industrial Services Centre, Panchayat Training Centre, Trade Promotion Centre, etc., which are constituted under the Development Board Act, fall outside the scope of our definition.⁴ However, the Corporations like Royal Nepal Film Corporation, Ratna Recording Corporation and Cultural Corporation which are not incorporated under any of the above acts have been included. They are established under the Communication Corporation Act.

In Nepal there are some departmentally-run agency or enterprises like postal services, production units under the Department of Cottage and Village Industry which are excluded

² It may be defined as the enterprise in which the government has minority interest, and ownership is always less than 50 per cent of the total paid-up capital. The general manager is also not appointed by the government.

³ The subsidiary public enterprises are those in which HMG's direct share participation is almost non-existent, but in which it has indirect ownership through other public enterprises incorporated under our definition. In other words, subsidiary public enterprises are those which are subsidiary to holding public enterprises.

⁴ The institutions established under the Development Board Act are basically public institutions. These are not established on commercial lines.

in the subsequent sections.⁵ Nepal Rastra Bank, the Central Bank of the country is also excluded from the study.⁶

Thus, as per our definition, the total number of public enterprises involved in economic activities in Nepal are 45 (see Appendix Table No.1). But as per the study conducted by His Majesty's Government, Corporation Coordination Council and Industrial Services Centre jointly, the number of public enterprises is 61.⁷ In their definition, they have included both the subsidiary as well as quasi-public enterprises.

To sum up, any enterprise, fully or partially owned, where management is nominated by the government and which is incorporated either under the Special Charter, Nepal Company Act, the Corporation Act or the Communication Corporation Act, is taken as the public enterprise for the present purpose.

⁵ These are excluded because their cost accounting and financial statements are not separated from the parent administrative department of His Majesty's Government.

⁶ Nepal Rastra Bank, the Central Bank of the country constituted under the Special Act, Nepal Rastra Bank Act, 1955, which occupies a special position and plays a vital role in the country's development efforts, has been excluded because it is more comparable to a public institution, and not run on commercial lines.

⁷ See : Performance of Public Enterprises in Nepal, Corporation Coordination Council and Industrial Service Centre, Kathmandu, 1977, pp.12-21 (hereinafter referred to as CCG Report).

Classification : functional and organisational

The functional and organisational classification of public enterprises is an important aspect of structure of public enterprise. In this section, this aspect shall be studied under : (a) functional classification, (b) organisation form, and (c) market situation.

a. Functional Classification

In Nepal there are forty-five public enterprises that fall within our definition. Their areas of activities are so diversified that we shall make an attempt to analyse them for the present purpose under seven major groupings based upon the nature of functions :

I. Trading :

1. Agricultural Inputs Corporation
2. Nepal Food Corporation
3. Nepal Oil Corporation
4. National Trading Limited (NTL)
5. Cottage Industries and Handicrafts Emperium
6. Fuel Corporation
7. Jute Development and Trading Corporation
8. Janakpur Paddy and Rice Export Company
9. Koshi - do -
10. Sagarmatha - do -
11. Lumbini - do -
12. Narayani - do -
13. Mechi - do -

II. Manufacturing :

1. Timber Corporation of Nepal (TCN)
2. Agro-Lime Industries
3. Birgunj Sugar Factory Ltd
4. Janakpur Cigarette Factory Ltd
5. Banswari Leather & Shoe Factory (BLSF)
6. Brick and Tile Factory, Harisiddhi
7. Nepal Tea Development Corporation (NTDC)
8. Agricultural Tools Factory Ltd.
9. Dairy Development Corporation (DDC)
10. Raghupati Jute Mills Ltd.,
11. Royal Drugs Ltd.
12. Balaju Textiles Ltd.
13. Hetsuda Textiles Ltd.
14. Nepal Cheuri Ghee Ltd.

III. Financing :

1. Nepal Industrial Development Corporation (NIDC)
2. Agricultural Development Bank (ADB)
3. Rastriya Banijya Bank
4. Rastriya Beema Samsthan
5. Provident Fund Corporation

IV. Transportation and Communication :

1. Royal Nepal Airlines Corporation (RNAC)
2. Nepal Transport Corporation
3. Nepal Telecommunication Corporation
4. Nepal Transit & Warehousing (P) Ltd

V. Electricity

1. Nepal Electricity Corporation
2. Eastern Electricity Corporation

VI. Construction

1. National Construction Company of Nepal (NCCN)

VII. Services or Miscellaneous

1. Gorakhatra Corporation
2. Royal Nepal Film Corporation
3. Cultural Corporation
4. Ratna Recording Corporation

In the above sector-wise classification most of the enterprises are concentrated in the trading and manufacturing activities, though in every classification there is at least one enterprise. Almost two-third of the enterprises fall in these two groups. In India too, there is a relative concentration of companies in the manufacturing activity, though a few are found in almost every other category as well.⁸ In Nepal the enterprises in the manufacturing sector are basically related with the consumer goods, and we do not find any heavy industry in this group. However, in India, there are also heavy and basic industries in this group.

⁸

Ramanadham, V.V., The Structure of Public Enterprises in India, Asia Pub.House, Bombay, 1961, p.32.

b. Organisation form :

In Nepal the organisational form of public enterprises can be grouped into : (1) Departmental organisation, (2) Development Boards, (3) Companies and (4) Corporations. However, the departmental organisation and development boards do not fall within our scope. The companies are established under the Nepal Company Act, and the corporations under both the general acts as well as the special charter acts. The general acts include the Company Act, the Corporation Act, Communication Corporation Act and the Commercial Bank Act. The special charter acts are N.I.D.C. Act, R.N.A.C. Act, Provident Fund Act, Gorakhapatra Corporation Act, Nepal Electricity Corporation Act, and National Insurance Corporation Act.

The company form of organisation has dominated the public enterprises in Nepal and there are twenty-six enterprises out of forty-five, that is, 58% in this form. However, in terms of general acts, out of forty-five enterprises, there are thirty-eight which comes to be 84%. In other words, 84% of the enterprises in Nepal are established under the general acts like Company Act, the Corporation Act, the Communication Corporation Act and the Commercial Bank Act.

In Nepal there are nineteen enterprises which come under the corporation form. This accounts 42 percent. However, only seven enterprises, that is, 16 per cent are constituted under the special acts.

The manufacturing and trading sector enterprises are basically found in the company form (see : Appendix Table No.1 for clear picture).

The corporation form has been most widely used in the U.K. and in other Commonwealth countries. But in the continent of Europe, in France, in Germany and in Italy in particular, the company form has become more popular. However, Mr.Hanson observes that the form, whether it is a public corporation or a company or whatever form it may be, is a matter of tradition, of historical accident.⁹

c. Classification on the basis of market situation

On the basis of market situation, we shall endeavour at making a classification of public enterprises as covered above. Though it is somewhat difficult to make an exact classification, it will broadly represent the situation prevailing in the country. The classification may be :

(1) Monopoly, (2) Duopoly, (3) Oligopoly and (4) Competition.

1. Monopoly - The enterprises falling in this category include the statutory monopolies as well as monopolies by reason of temporary absence of other producers in the country. In this category there are twenty-two enterprises. They are: Nepal Electricity Corporation, Eastern Electricity Corporation,

9. Hanson, A.H., Managerial Problems In Public Enterprises, op.cit. pp.25-26.

Nepal Telecommunication Corporation, RNAC, Agrolime Industry Ltd., Nepal Cheuri Ghee Ltd., Nepal Oil Corporation, NTL, Jute Development and Trading Corporation, eight paddy and rice exporting companies, Nepal Transit and Warehousing Ltd., Nepal Insurance Corporation, Royal Nepal Film Corporation, Provident Fund and Ratna Recording Corporation.

2. Duopoly - In this category two producers share the entire product market. There are two enterprises in this category, namely, Raghupati Jute Mills Ltd and Rastriya Banijya Bank. Raghupati Jute Mills Ltd has to share the market with the Biratnagar Jute Mills Ltd established in the private sector and the Rastriya Banijya Bank with the Nepal Bank Ltd., a mixed enterprise.

3. Oligopoly - In this case, a few sellers share a limited market. Birgunj Sugar Factory Limited, Timber Corporation of Nepal, Janakpur Cigarette Factory, Brick & Tile Factory Ltd., Dairy Development Corporation, Fuel Corporation and NCCN come under this category. There are certain other enterprises like Agricultural Inputs Corporation, Nepal Food Corporation, NIDC and ADB which have privileged market may also be put in this category. Thus, in this group comes a total of eleven enterprises.

So, a total of thirty-five enterprises come under monopoly, duopoly and oligopoly market situations. However, because of their strong dominance in the market, these may well be considered as the case of 'monopoly'.

4. Competition - Under this category there are ten enterprises which have to face intense competition in the market. These include Agricultural Tools Factory Ltd., NTDC, Banswari Leather & Shoe Factory, Royal Drugs Ltd., Balaju Textiles Ltd., Hetauda Textiles Ltd., Cottage Industries and Handicrafts Emporium, Gorakhapatra Corporation, Cultural Corporation and Transport Corporation of Nepal.

Thus from the above classification, it is quite clear that most of the enterprises in Nepal, that is, 78 per cent, are in the nature of 'monopolies'.

CHAPTER III

EVOLUTION OF PUBLIC ENTERPRISES IN NEPAL

Nepal was ruled by Rana autocratic family for 104 years (1846-1951). It was overthrown by democratic forces in February 1951. After the advent of democracy, with a view to creating an industrial atmosphere in the country, to stepping up the pace of economic development, to reducing the excessive reliance on agriculture and to increasing the national income by bringing about the proper balance and coordination in the ill-balanced economy of the country, the First Five Year Plan (1956-61) was launched. However, in this plan nothing was mentioned regarding the establishment and role of public sector enterprises. Still some enterprises, namely, Royal Nepal Airlines Corporation, Nepal Industrial Development Corporation and the Timber Corporation of Nepal were established, and the management of the Raghupati Jute Mills Limited (established in 1946) was taken over by the government because of its failure to repay government loan. All the advanced loans were converted into state shareholdings.

In December 1960 the political system in the country changed in a significant way. The parliamentary form of government was dissolved by the King. The King justified his action on the ground that the economic conditions of the

country were rapidly deteriorating and the welfare of the common mass was being neglected under the presence of parochial interest and a rapidly rising level of corruptions. He, then, proclaimed the Partyless Panchayat Democracy under his guidance and leadership and pledged the rapid development of society, free from exploitation.

After the political change of 1960, massive drive was launched to obtain maximum techno-economic cooperation both on the multilateral and the bilateral level. This automatically led to an expansion of the network and role of bureaucracy significantly. It was at this stage the government felt the need of innovating new institutional medium that could function more on business principle rather than on the methods of bureaucracy. Thus, it was felt that a state-run enterprise should be able to stand on its own for its development and growth.

The First Plan in Nepal was launched without adequate knowledge and clear objectives required for initiating a development plan. Further the greatest mistake that occurred in the First Plan was that no serious attention was paid for executing the plan. Thus, much of the Plan remained only on paper and there was a great gap between the plan targets and achievements.

After the completion of the First Plan, the year 1961-62 was unusual. It was a non-plan year. However, during the year three public enterprises - Ratna Recording Corporation,

National Trading Limited and National Construction Company of Nepal - were started.

Till the formulation of Second Plan (1962-65) - a three year plan, the public corporation as an institutional vehicle for economic development of the country was not accepted. It was only in this plan that public sector enterprises as one of the major sources for resources for the government by way of dividend profit was emphasized.¹ It envisaged the increasing role of already established National Trading Limited in the field of expanding the Nepalese foreign trade with other countries in the future. It also aimed at the completion of the construction of a Sugar Factory in Birganj and Cigarette Factory in Janakpur both under the Russian techno-economic cooperation. However, there was nothing written in the plan draft regarding the establishment of six other enterprises² which were established in the public sector.

The Third Plan, operative from 1965 to 1970, suffered from the same fate as its predecessors. While the industries producing liquor, stainless steel utensils, cigarettes, matches, shoes and processed leather for which the plan included no

¹ See : Three Year Plan published by His Majesty's Government, Nepal, National Planning Council, 1962, p.29.

² The six enterprises were : Provident Fund Corporation, Gorakhpatra Corporation, Nepal Electricity Corporation, Rastriya Baniya Bank, Transport Corporation of Nepal and Fuel Corporation.

target did extremely well, all the industries included in the plan were far behind in production. The industries like cement, paper, solvent extract, paint varnish for which targets were fixed in the plan were not even started.³ However, in the plan, HMG had given priority for the development of basic industries in the public sector. During the plan period, ten public enterprises were established.⁴

During the Fourth Plan period (1970-75) a number of public enterprises were established. Their number stood at 19 including eight paddy and rice export companies. In this plan the government realised that the private sector investment is not forthcoming as expected. The Fourth Plan document itself

³ For achievement of Third Plan goals, see : Aaron Wildavsky, "Why Planning Fails in Nepal", Administrative Science Quarterly, Dec.1972, Table 2, p.510 (Abstracted and condensed from CBDA, cyclostyled by Dr.Prakash C.Lohani).

⁴ They include : Banswari Leather & Shoe Factory Ltd. (under Chinese techno-economic aid), Agricultural Input Corporation, Cottage Industry and Handicraft Emporium, Nepal Tea Development Corporation Ltd., Agricultural Development Bank, Agricultural Tools Factory Ltd. (Russian techno-economic aid), National Insurance Corporation, Brick and Tile Factory Ltd., (Chinese techno-economic aid), Dairy Development Corporation (under financial and technical loan from the Netherlands, New Zealand and Denmark) and Nepal Telecommunication Board (now Corporation).

makes it clear : "It cannot be said that the private sector will set up all the basic and feasible industries capable of making special contributions to the industrial development of the country. The Government will attempt to establish paper, fertiliser and cement industries with the aid of gradually selling them to the private sector in the future."⁵

In the year 1974, a New Industrial Policy was announced in which the sphere of activities between the public and private sectors was clearly demarcated. Under the policy, the enterprises concerning defence and electric power generation and distribution was made the monopoly of public sector. Regarding the basic industries like iron and steel, chemical fertiliser, cement and petroleum, HMG reserved the right to subscribe 51 per cent of the paid-up capital (minimum) and 100 per cent (maximum). All the remaining industries were to be assigned to the private or mixed sector. However, the policy made it clear that public sector involvement will be limited to 'large scale industries having more than five million rupees of investment'.⁶

⁵ HMG, National Planning Commission, Fourth Plan (1970-75), Kathmandu, 1970, p.198.

⁶ See : HMG, Ministry of Industry and Commerce, New Industrial Policy, Kathmandu, 1974.

During the Fifth Plan (1975-80) period it has been proposed to set up four industries either in the public sector or joint sector which includes Resin and Turpentine Plant, Magnesite and F.H.P. Fertiliser Plant, Paper and Pulp Factory, and Cement Factory. But, no progress has been recorded so far except some preliminary works in case of cement factory. It has also been envisaged to implement the public sector projects already initiated during the Fourth Plan. The production target programme for six public sector enterprises, namely, Birganj Sugar Factory, Agricultural Tools Factory, Janakpur Cigarette Factory, Leather & Shoe Factory, Brick & Tile Factory and Nepal Tea Development Corporation has been fixed.⁷ During the plan period the government hoped to receive Rs.250 million as profit from investment in public enterprises. But looking at the past performance of public sector enterprises, one would have to be rather pessimistic.

From the foregoing analysis it becomes quite evident that HMG has been placing emphasis upon the development of public sector only when it could not attract the private capital. Although the place of private sector has been clearly defined in all the plans and a lot of facilities and concessions are announced, the private capital has not come forward because

⁷ See : HMG, National Planning Commission, Fifth Plan (1975-80), op.cit., pp.379-95.

of the lack of faith in the government. There always exists a wide gap between government policy and action. Such inconsistent policy and political instability will not be conducive to the economic development of the country. Regarding the economic objective of the Panchayat System, our constitution says : "to establish a system that will provide maximum participation of the general public in the economic uplift of the country as well as to encourage co-operative and private enterprise, and wherein no individual or class is able to exercise undue economic pressure upon another individual or class."⁸

Thus the evolutionary trend of public enterprise in Nepal indicates⁹ that 'this form of institution is accepted as a handy remedial tool to solve some of the immediate problems encountered by the government'. Government's decision to establish public enterprises for accelerating the pace of our economic development was neither a part of an overall development strategy nor was it based upon any political ideology and perspective thinking. It was rather prompted by occasional requirements and foreign aid programmes. As a result, it emerged in the national socio-

8

HMG, Ministry of Law and Justice, Law Books Management Committee, The Constitution of Nepal (Amended), op.cit., p.9.

9

Also see : Rajbhandari, O. and J.K. Pathak, J.K. (Ed.), "From the Editorial Desk," Nepal Journal of Management Quarterly, No.6, Oct. 1974, Kathmandu: Management Consultants & Co., pp.V-VI.

economic scene in a hotch-potch manner. Many instances can be taken in this connection. At the moment let us take the case of National Trading Limited. NTL was created to handle the commodity aid received from the socialist countries especially People's Republic of China and the Soviet Union. Prior to its establishment the commodities were handled by HMG, Ministry of Industry and Commerce, Department of Commerce and proceeds were handed over to the government to meet the local cost components of the project executed by these countries. But, soon the Department of Commerce faced many operational difficulties in dealing with the situation and it felt the need of creating a new organisation that could deal with the problem more smoothly and independently. Subsequently, NTL was created.

During the last decade, the public enterprises in Nepal have grown like mushrooms, and to-day, it is a large and growing family touching every corner of our economic life. They constitute a large and critical aggregate of investment spread over a wide field of activities ranging from selling of rice, salt, sugar, firewood and cigarettes to providing of banking and financial facilities and flying of aeroplanes. Despite the rapid growth, however, the performance of public enterprises, from resource mobilisation point of view has remained far below of expectation. For example, HMG received Rs.4.61 million as dividend profit during a period of eight

years from 1964-65 to 1971-72.¹⁰ The maximum amount of dividend received in a single year was Rs.0.795 million in 1967-68, which was 1.07 per cent on a networth of Rs. 74.38 million. The minimum amount of dividend amounted to Rs.0.49 million in 1971-72 which was 0.38 per cent of the networth of Rs.126.07 million.¹¹ Thus the objective of creating public enterprises for augmenting internal resources required for speeding the rate of our economic growth has been primarily defeated.

In the year 1974-75, out of the total networth of Rs. 979.3 million (43 enterprises taken together)¹², the government received a dividend of Rs.3.0 million, that is, 0.3 percent on the networth.¹³

The fact that the performance of public enterprises are below expectation is evident from the criticism from the Rastriya Panchayat (National Legislature) members, economists and the research finding by a couple of research agencies. HMG had also come to realise that something

¹⁰ Pathak, J.K. and Rajbhandari, O., Economic Management Study of Public Enterprises in Nepal (under grants from International Development Research Centre, Ottawa, Canada), Management Consultants & Co., Kathmandu, 1974 (unpublished), p.V. Only 25 major enterprises were taken.

¹¹ ibid

¹² The data for Seti-Mahakali Paddy & Rice Export Company and Provident Fund Corporation is not available.

¹³ Collected and estimated from the Profiles.

needed to be done to improve the performance of public enterprises. Thus a working group was formed by HMG in the year 1975 to study public enterprises in Nepal as regards co-ordination between enterprises, their structure and working. Consequently, the Corporation Coordination Council¹⁴ came into existence in 1975.

Sixth Plan (1980-85) :

In order to extend an integrated service facilities to small, cottage and village industries through institutional means, a separate Small and Cottage Industrial Development Corporation has been planned to be established during the forthcoming Sixth Plan Period (1980-85)¹⁵. Taking into consideration the importance and reliance placed on these industries and seeing the peculiarity of country's economy, an institution of this type was long felt and even suggested.¹⁶

During the Sixth Plan period, it has also been planned to set up a separate corporation for effective functioning of the existing industrial districts in the country.¹⁷ However, how far the proposed corporations will be effective in fulfilling the objectives of their establishment is yet to be seen.

¹⁴ It was an advisory body to coordinate the different public enterprises in the country. However, it has recently been dissolved.

¹⁵ HMG., National Planning Commission Secretariat, Basic Principles of the Sixth Plan (1980-85), op.cit., p.43.

¹⁶ Pathak, J.K., A Financial Study of N.I.D.C. : A Case Study (submitted to the Tribhuvan University in partial fulfilment of the M.Com. Degree), Kathmandu, 1969, p.37.

¹⁷ Sixth Plan, op.cit., p.44.

CHAPTER IV

NEED FOR PROFIT AND SOME ASPECTS OF FINANCIAL PERFORMANCES OF PUBLIC ENTERPRISES IN NEPAL

In the introductory chapter we have explicitly mentioned that in the absence of other specific criteria for evaluating the performance of public enterprises in Nepal, profitability should be emphasized. Here, in the following sections, we are planning to put forward the case for profitability for various reasons, rationality of applying profitability test in Nepal, and finally, proceeding on to the evaluation of some of the aspects of financial performances of Nepali public enterprises. As noted earlier, financial data indicate the performance of public enterprises in both the developed as well as developing countries.

1. Profitability

Most of the developing countries are attracted by the idea of state monopoly for the sake of generating surpluses¹ for

¹ Surplus is a part of the value of a product which directly re-enters the economy to finance further growth. This is estimated by the surplus in product value over and above payments for material inputs and employee compensation. It consists of the payments by public enterprises to the exchequer through direct and indirect taxes and through dividends and levies from its post-tax profits.

further reinvestment. As stated, profit may be taken as one of the criteria for evaluating the performances of public enterprises. But the question as to whether the public enterprises should aim at generating surplus or not is really a controversial and much discussed question. Different views exist in favour of and against this crucial question. We shall first summarise the views of different authorities in this regard and then analyse the situation in Nepal.

Necessity of Profits in Underdeveloped Countries

The traditional concept that the public enterprises should not make any profit on the ground that they are meant to serve the people is totally irrelevant, and not appealing in present days when people are so anxious for achieving an increase in their standard of living in the shortest possible time. In fact, in an underdeveloped country, where there is extreme shortage of capital and the rate of capital formation is negligible, and much of the developmental activities have, of necessity, fallen on the state, public enterprises should be called upon to play a more positive role in the nation's economic development. If the government is able to realise some surpluses from public enterprises to finance developmental activities, the revenues from taxation could be diverted to meet other non-investment activities. In this connection the U.N.Seminar stated that "industrial enterprises . . . should normally aim at something very much more than a break-even position as they can be expected to contribute significantly

to the process of capital accumulation, the surplus being either ploughed back into enterprise itself or made available for other enterprises through the Ministry of Finance or Treasury.² At another place it concluded that "in promoting domestic saving and ensuring proper investment public enterprises have an important role to play. They may operate so as to raise surplus which will be available for investments in the same enterprise or elsewhere in the economy."³ The Rangoon Seminar on "Organisation and Administration of Public Enterprises" held under the auspices of ECAFE (now ESCAP) had also come to the conclusion that public enterprise should make a profit. Their main contention is that in the underdeveloped countries there exists scarcity of capital and a portion of the surplus made should be made available for the industrial development in the country as a whole and the other portion should be ploughed back into the industry itself for its further expansion and growth.⁴ So, the U.N. Seminar reports clearly stress the generation of surplus for the industrial development in the country and for further expansion and growth of the concerned enterprise.

² U.N. Seminar on Organisation and Administration of Public Enterprise, U.N., Geneva, Switzerland, Sept. 26 - Oct. 4, 1966, p. 6.

³ Ibid, p. 12

⁴ See : Hanson, A.H., (Ed.), Public Enterprise : A Study of its Organisation and Management in Various Countries (Collection of Rangoon Seminar Papers), Brussels : International Institute of Administrative Sciences, 1955.

Profits for the Expansion of the Enterprise

In the U.K., there are some economists who are in favour of earning as much profits as possible. The profit is necessary, they argue, for the expansion of the concerned enterprise, for the welfare of the worker and to contribute to the national revenues. They have alleged that the prices and profits in nationalised industries have been deliberately kept low and there has been a wasteful use of the products of these industries and this has distorted investment allocation.

Regarding earning of profits by the public enterprises, I.M.D.Little states that the larger the public sector, the more important it becomes that this sector, taken as a whole, should earn profits. These profits would be required mainly to finance the expansion and development of the industries concerned. It is also equally necessary to contribute to general revenues. He suggests that profits be used partly for expansion and renewal, partly for workers welfare and partly for augmenting the national revenues.⁵

Should Profits of Public Enterprises be Comparable to Private?

The Conservative Government in their 1961 White Paper stipulated that profits and returns in nationalised industries

⁵ Little, I.M.D., A Critique of Welfare Economics (Second edition), Oxford, 1957, p.184.

should be more comparable with those in the private sector. If profits are lower in nationalised industries, the government has to support for its expansion and growth, and as a result, nation's savings will be diverted to nationalised industries. In 1967, the British Government published a new White Paper on Nationalised Industries : A Review of Economic and Financial Objectives. It started from the position that nationalised industries should be operated basically as commercial concerns and have the objective of promoting an efficient allocation and use of resources.⁶ It was also indicated that investment should be directed to those activities where the expected returns were greatest. As a part of more specific guidelines industries were expected to cover fully their accounting as well as operating costs and so avoid deficits.⁷

The efficient allocation of resources can be achieved only if the rate of profit in public sector industries is the same as in private industries. A public enterprise should be able to provide a rate of return on capital comparable with that earned by a private enterprise.⁸

⁶ Webb, G. Michael, The Economics of Nationalised Industries, A Theoretical Approach, London : Nelson, 1973, p.87.

⁷ Thomas, W. A., The Finance of British Industry, 1918-1976, London, 1976, p.281.

⁸ Turvey, R., Economic Analysis and Public Enterprises, London : George Allen & Unwin, 1971, p.17.

Profits and Other Sources
of Government Revenue

Hanson supports rather in a different way the view that public enterprises should earn profits. To him profit earning is necessary to redistribute income. If the enterprise makes no profit, government has to provide all the funds. The latter has to raise the necessary funds by increasing taxation or by inducing inflation, which is always dangerous or through public borrowing. If it is possible to raise capital through public borrowing, the effect will be to redistribute in favour of the wealthier members of the community.⁹

The profit objective of the public enterprises has also been supported on the ground that it will help to reduce public debt. If public enterprises sell their product at a loss, it will give rise to private income, and government, on the other hand, has to borrow from private people for investment on development projects.

Profit for the establishment of
a Socialistic Pattern of Society

The All India Congress Committee in its Ooty Seminar Report has stated, "State enterprises are not invariably

⁹ Hanson, A.H., Public Enterprises and Economic Development, op.cit., pp.436-37.

social utility concerns. They have to serve as important media for raising resources for development." It also held the view that in the conditions of an underdeveloped country, there should be no objection in theory to the use of state trading to finance development. It felt that state trading and/or differential taxation should be extended to selected commodities which yield a huge margin of profit.¹⁰ In the same Seminar, while presenting his paper, Dr.V.K.R.V.Rao said that public enterprises must be carried on a profit-making basis. He adds that not only in the sense that public enterprise must yield an economic price, but must also get for the community sufficient resources for financing a part of the investment and maintenance expenditure of the government.¹¹ Dr.Rao had expressed his views keeping in his mind the establishment of socialistic pattern of society in India in future.

Generating Surplus and the Socialist Economy

In socialist societies, like the U.S.S.R., Yugoslavia, and so on, profits have an important place. The difference

10

All India Congress Committee, Congress Planning Sub-Committee, Report of the Ooty Seminar (May 30-June 5, 1959), New Delhi, 1959, p.27.

11

Rao, V.K.R.V., "Prices, Income, Wages and Profits in a Socialist Society", All India Congress Committee, Congress Planning Sub-Committee, Ooty Seminar (May 30-June 5, 1959), Papers Discussed, New Delhi, 1959, p.176.

between the economic price and social price would be what may be called planned profit. There, the individual enterprises are permitted to retain a large share of surpluses mainly to build up the financial resources needed for following their own independent investment policies which helps to increase productivity.¹² In such societies, a predominant part of the revenue is derived from the profits of public enterprises or from taxes on the products of public enterprises.

In the U.S.S.R., normally, only about 10 per cent of the public revenue^w is derived from taxation and loans and the remainder from the profits of national enterprises and the turnover tax on the products of public enterprises.¹³ It clearly shows the importance of profits from the public enterprises in USSR. In this way, the socialist industrialisation rests on the profitability of public enterprises. They have been quite helpful in making the process of economic development self-financing.

Even in predominantly private enterprise economy, public enterprises have appreciably contributed to the state revenues.

¹² *ibid.*, pp.173-74.

¹³ Deshpande, R.A., "Pricing Policy of Public Enterprises", The Indian Journal of Public Administration (Jan.-March 1962), New Delhi, p.53.

Some of the Latin-American and Middle Eastern countries obtain substantial revenues from public enterprises in the form of profits. In some countries of South-East Asia and the Far East, state ownership covers not only some basic industries but also trading in certain major articles of export which offer scope for substantial profits. In Cuba, Philippines and Puerto Rico, profits made in the government or government sponsored projects and enterprises are deliberately used as a source of finance for further development. In Burma, state trading and state monopoly in rice and timber has been responsible for sizeable revenues to the exchequer. In a similar way, the monopoly of export trade in rice and fiscal monopoly in opium and tobacco have made remarkable contribution in the case of Thailand's economy.¹⁴

Thus it is quite clear that whether it is a developing economy or developed one, capitalist, socialist or mixed, profit is necessary at least to keep the enterprise going and to contribute minimum towards the development of the country. If it does not generate any surplus for its own expansion and development, it cannot keep going and becomes a 'permanent liability' to the state. In fact, "the essential

¹⁴ Shamanna, K., "Price and Profit Policy in Indian Public Enterprises", A.I.C.C. Economic Review (March 22, 1961), New Delhi, p.36.

purpose of any enterprise is not to be a liability but to be an asset",¹⁵ otherwise, it becomes a constant burden on the tax payers.

The principle of 'generating surplus' has to be followed if the public enterprise has to work in collaboration with local or foreign private parties. The private parties do not agree to invest their funds or permit the use of their patent rights or anything without being adequately rewarded for the same.

Arguments against Generating Surpluses

However, it has also been equally argued that public enterprises should not be a surplus-generating agency.

It is pointed out that the aim of public enterprises is not to work for profits but to serve the public interest. Now, the question arises : What is 'public interest'? If the term 'public interest' is interpreted to include all policies that aim at the rapid expansion and growth of the economy, and all measures that help the fulfilment of the targets of the plan, there would be no contradictions between profits out of public enterprises and serving the national interest; because, profits help to serve the national interest.

¹⁵
Hanson, A.H., Managerial Problems in Public Enterprise,
op.cit., p.16.

The argument against profit earning by the public enterprise is that if a policy of profits is followed once, it may be a constant source of temptation for the government to raise prices of the products of public enterprises to meet its increasing needs for revenues. This will lead to the exploitation of consumers through the monopoly power enjoyed by the public enterprises. In this way, the poor consumers will have to be at the mercy of the state. "Public enterprises generally have some degree of monopolistic power and a directive to maximise profits would inevitably lead to 'exploitation' of consumers."¹⁶

The profit motive of public enterprise is sometimes rejected on the ground that public enterprise can serve the society in a better way even if they do not generate surplus. For example, the public enterprises running at deficits will be making a contribution to the welfare of the community through the selling of cheap gas, electricity, transport, water and postage. Say, if high prices are charged on public utilities like electricity, transport, etc., they would raise the cost of production of those commodities for which these constitute inputs. The rise in the prices of finished goods

16

Reed, P.W., The Economics of Public Enterprise, London : Butterworths, 1973, p.3.

will have inflationary tendencies. So, it may be suggested that in consumer goods industry, the 'surplus price policy' may be followed, and in the intermediate and capital and basic goods, the 'break even' one.

The public enterprises will always be tempted to hide the inefficiency and the resultant higher costs by raising the prices. So, it is said that the profit motive of the enterprises should be abandoned.

Stephen A. Marglin, after weighing the pros and cons of generation of resources by public enterprise, concludes that the possibility of recovering costs through revenue should not necessarily be decisive in the allocation of investment funds nor should the cost recovery determine price policy of public enterprises once they are in existence.¹⁷

Now, taking into account the arguments in favour of and against profits-making by public enterprises, it can be said that profit should be generated at least for the existence of the concerned enterprise and for financing the economic development of the country. In fact, it should be made as one of the criteria for evaluating the performances of public enterprise. In its absence the enterprise will be a constant

¹⁷ Marglin, Stephen A., "Pricing Policy for Public Enterprises", Development Digest, Vol.VI, No.3 (July, 1968), p.103.

burden to the government and has to be subsidised through tax payers' money. But the prices of the basic inputs necessary for the industries should be regulated by the government. The government should make it clear that the amount of surpluses it expects from various enterprises taking into account the objective of enterprise, its constraints, etc.

2. Rationality of applying Profitability Test in Nepalese Public Enterprises

In the absence of any set criteria for evaluating the performances of public enterprises, the criteria of profitability may be used in the context of Nepal. This is consistent with the national objective.

A public enterprise in Nepal is virtually established with the explicit objective of augmenting internal resources to supplement government's development budget. Earning a fair rate of return on assets is, therefore, one of the desiderata of Nepalese public enterprises. But at this stage it would be proper to ask the question whether earning surplus is compatible with the national economic goal. The answer is definitely in the affirmative for people have postponed certain immediate or long-term use in setting up a public enterprise. Actually, the question should not be whether there is need for earning certain level of profit on investment in a given economy but it should rather be who is to receive it. In the present context of Nepal, all profit that a public enterprise makes goes partly to the treasury of His Majesty's government

by way of dividend payment which is meant for further economic growth of the country and certain amount is apportioned for various reserve funds by way of retained earnings. The amount so apportioned could be used any time for further expansion and improvement of the enterprise. Therefore, the debate should not be about the correctness of earning the profit. It should rather categorically be emphasised that every enterprise should earn a specific rate of return on investment.

Finally, it would be appropriate to quote here, J.K.Galbraith, "If I had to lay down a measure of performance for the publicly owned corporation in the developing country, it would be the earnings that it is able to put into its own expansion. The most successful form would be the one which by its efficiency and drive finds the earnings that allow it the greatest growth."¹⁸

3. Financial Performance of Public Enterprises

In this section we shall mainly analyse the contribution to the national treasury, returns on net capital employed and networth, and the dividend pay-out ratio. As stated earlier, for the purpose of analysis, the enterprises have been grouped under seven categories.

¹⁸ Galbraith, J.K., Address on "Public Administration and Public Sector" at the Indian Institute of Public Administration, New Delhi, August 25, 1961 (quoted in V.V.Ramanadham's book, "The Finances of Public Enterprises, Bombay, Asia Pub.House, 1963, p.24.)

a) Trading Sector - State participation in trading sector in Nepal started when National Trading Limited was established to handle the commodity aid received from the socialist countries. At present there are 15 enterprises under this category.

In the year 1972-73, there were six enterprises under the trading sector, namely, Agriculture Inputs Corporation, Nepal Oil Corporation, National Trading Limited, Cottage Industries and Handicrafts Emporium, Fuel Corporation and Jute Development and Trading Corporation. In 1973-74, no additional enterprises under this category was established. In the year 1974-75, Nepal Food Corporation and eight other paddy and rice export companies were established. However, the data for one of the rice and paddy exporting companies, namely, Seti-Mahakali Paddy and Rice Export Company Limited, is not available. So, under this category, we shall analyse the rest fourteen enterprises.

b) Manufacturing Sector - State intervention in manufacturing sectors in Nepal began with the takeover of the management of Raghupati Jute Mills Limited. In this category, there are altogether fourteen enterprises which come under our definition.

Till the year 1972-73, there were eleven enterprises under this category, namely, Timber Corporation of Nepal, Birgunj Sugar Factory Limited, Janakpur Cigarette Factory Ltd., Banskari Leather and Shoe Factory Limited, Brick and Tile

Factory Ltd., Nepal Tea Development Corporation, Agricultural Tools Factory Ltd., Dairy Development Corporation, Raghupati Jute Mills Ltd., Balaju Textiles Ltd., and Royal Drugs Ltd. In the year 1973-74, there emerged one more company engaged in manufacturing activities, namely, Agro-lime Industry Ltd., In the year 1974-75, two companies, namely, Hetauda Textiles Ltd., and Nepal Cheuri Ghee Industry Ltd., were added to the manufacturing sector, making a total of fourteen industries under the manufacturing category.

c) Financing Sector - Under this category, since the year 1972-73, there were five enterprises, namely, N.I.D.C., A.D.B., National Insurance Corporation, Rastriya Banijya Bank and Provident Fund Corporation. However, the Provident Fund Corporation does not have any equity capital.

d) Transport and Communication Sector - Since the year 1972-73, there are four enterprises under this category, namely, Nepal Telecommunication Corporation, R.N.A.C., Nepal Transport Corporation and Nepal Transit and Warehousing Ltd.,

e) Electricity Sector - Till the year 1973-74, Nepal Electricity Corporation was the lone company under this category. However, in the year 1974-75, the government created Eastern Electricity Corporation by taking over the ownership of Morang Hydro-electric Supply Co., and Dharan Electric Supply Company. So, there are only two enterprises under this category.

f) Construction Sector - Under this sector, there is only one enterprise, namely, National Construction Company of Nepal (N.C.C.N.).

g) Miscellaneous Sector - Finally, under this sector, there are four enterprises, namely, Royal Nepal Film Corporation, Gorakhapatra Corporation, Cultural Corporation and Ratna Recording Corporation, operating since the year 1972-73.

Now, in the following sections, the sector-wise and aggregate financial analysis shall be made. The analysis has been broadly grouped under four groups : (i) Composition of Capital Funds Investment, (ii) Magnitude of Gross Savings, (iii) Contribution to the Treasury, and (iv) The rate of return Analysis.

1) Composition of Capital Funds Investment - The capital funds investment in Nepali Public Enterprises is in the form of paid-up capital, long-term loans, subsidies, reserve funds and undistributed profit and loss. The capital funds investment has been classified into two terms - Gross Total Capital Funds Investment (GTCFI) and Total Capital Funds Investment (TCFI). The GTCFI refers to the total of all types of investment in the form of paid-up capital, long term loans, subsidies, reserve funds, and undistributed profit and loss. However, TCFI means GTCFI minus share capital and long-term loans contributed by the parent or shareholding public enterprises which come under our definition. In Table 1, we shall present the composition of capital funds investment

Table No. 1

Composition of Capital Funds Investment

(Rupees in Million)

Sector	Equity Capital			Long Term Loans			Subsidies and Grants			Reserve Funds			Undistributed Profit and Loss (-)			Gross Total Capital Funds Investment (GTCFI)			Total Capital Funds Investment (TCFI)					
	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75			
Trading	42.8	44.4	93.1	3.5	5.8	0.5	2.7	9.9	0.2	18.9	19.0	27.2	-0.2	-7.3	0.5	67.7	71.9	125.5	62.3	55.8	111.8			
Manufacturing	139.1	153.3	166.0	12.0	9.7	31.0	3.1	4.8	4.9	51.4	60.4	69.9	-13.9	-12.5	-11.8	191.7	215.7	260.0	180.5	215.5	253.7			
Financing	152.0	184.7	202.5	48.6	120.3	138.4	0.5	1.1	2.0	9.2	13.4	16.8	0.3	1.0	0.9	210.6	320.5	360.6	210.6	320.5	360.6			
Transport & Communication	133.9	139.4	144.7	110.1	128.5	121.4	-	-	-	-	-	-	-20.5	-23.4	-17.7	223.5	244.5	248.4	223.5	244.5	248.4			
Electricity	25.6	25.6	274.6	106.4	105.7	N	-	-	-	2.9	4.0	5.6	N	-0.8	-19.1	134.9	134.5	261.1	134.9	134.5	260.9			
Construction	3.0	3.0	3.0	-	-	-	-	-	-	2.5	7.1	7.1	1.2	2.0	-1.3	6.7	12.1	8.8	6.7	12.1	8.8			
Miscellaneous	5.2	9.5	19.0	-	-	-	-	-	-	-	-	-	-0.1	-1.2	-1.6	5.1	8.3	17.4	5.1	8.3	17.4			
Total	501.6	559.9	902.9	280.6	370.0	291.3	6.3	15.8	7.1	84.9	103.9	126.6	-33.2	-42.1	-50.1	840.2	1007.5	1237.8	823.6	989.2	1261.6			
Annual Increment of TCFI in amount and percentage within brackets																					-	165.6 (20.1)	272.4 (27.5)	
Share of TCFI on GTCFI (in percentage)																						98.0	98.2	98.4

Notes: 1. Source: Compiled and calculated from the Profiles.

2. GTCFI = Total Equity Capital + Long-term Loans + Subsidies + Reserve Funds + Undistributed Profit/Loss.

3. TCFI = GTCFI - Inter-Corporation Investment.

4. N. Stands for negligible, which is less than 0.05 million.

in the public enterprises of Nepal. The table shows a continuous upward trend in the GTCFI as well as TCFI. The percentage of TCFI on GTCFI has been steadily increasing and has always been above 98 percent.

The TCFI has recorded an increase from Rs.823.6 million in 1972-73 to Rs.989.2 million in 1973-74 and Rs.1261.6 million in 1974-75. In other words, an annual increment of 20.1% in 1973-74 over 1972-73, and 27.5% in 1974-75 compared to the year 1973-74 has been recorded. Such a rapid increase was mainly due to the transfer of assets from HMG to public enterprises including the transfer of foreign aided projects, creation of new public enterprises, and long-term loans obtained from foreign agencies to N.I.D.C., A.D.B., Raghupati Jute Mills, etc.

Regarding the composition of the capital funds investment, the equity share constitutes the largest share, that is, above 60 per cent in all the years. Long-term loans which has the second largest share in the capital funds investment exhibits a fluctuating trend between 20 and 37 percent. The reserve fund amount shows an increasing trend. But looking at the table, the distressing point is the increasing amount of negative undistributed profit and loss figure. The amount of subsidies and grants is quite fluctuating. So, the increasing amount of capital funds investment and negative undistributed profit and loss shows that despite increased amount of investments, the public enterprises are doing badly.

(ii) Magnitude of Gross Savings - Gross saving is one of the most important indicators of public enterprises, and consists of two components, namely, depreciation and retained earnings. It represents the source of internal financing for the expansion and growth of the enterprise. So, a higher rate of retained earning indicates the financial soundness of the enterprise. However, the magnitude of internal financing depends upon the profitability, and the dividend policy of the enterprise. In Table 2 the gross savings and its components in the Nepali public enterprises has been presented.

The Table 2 shows that over the period under analysis there has been a gradual decline in the growth of retained earnings of the public enterprises in Nepal. Its share to gross saving has sharply declined from 31.7% in 1972-73 to 17.8% in 1974-75. Such a sharp decline was due to the huge losses incurred in the electricity sector, and the increase in the amount of depreciation.

Over the years, the depreciation figures have been showing a constantly increasing trend. There has occurred a sharp increase in the year 1974-75 as compared with the earlier years. This was primarily because of the growth of assets over time, especially in the electricity sector. To note here, there has not been any change in depreciation policy.

Table No. 2
Magnitude of Gross Savings

(Rupees in Million)

Sector	<u>Depreciation</u>			<u>Retained Earnings</u>			<u>Gross Savings</u>			<u>% of Retained Earnings over Gross Savings</u>		
	1972/73	1973/74	1974/75	1972/73	1973/74	1974/75	1972/73	1973/74	1974/75	1972/73	1973/74	1974/75
Trading	1.5	1.5	2.1	4.9	-8.3	1.2	6.4	-6.8	3.3	-	-	-
Manufacturing	9.4	9.1	8.6	12.6	16.3	13.4	22.0	25.4	22.0	-	-	-
Financing	0.5	3.6	0.9	4.1	3.6	14.2	4.6	7.2	15.1	-	-	-
Transport & Communication	16.9	18.1	17.2	-9.5	-2.6	5.6	7.4	15.5	22.8	-	-	-
Electricity	3.4	4.6	21.0	0.8	0.2	-20.5	4.2	4.8	0.5	-	-	-
Construction	1.3	1.8	4.5	1.9	3.8	-1.5	3.2	5.6	3.0	-	-	-
Miscellaneous	0.1	0.1	0.3	-0.5	-1.1	-0.6	-0.4	-1.0	-0.3	-	-	-
Total	33.1	38.8	54.6	14.3	11.9	11.8	47.4	50.7	66.4	31.7	23.5	17.8

Source: Collected and calculated from the Profiles.

So, from the above analysis, we can safely conclude that the fixed assets of the public enterprises of Nepal have not been properly utilized. It seems the fixed assets management is the weakest point in Nepali public enterprises. It has not received due and serious attention as yet.

Regarding the position of gross savings, the table makes it clear that the total gross savings are also increasing over time. This has become possible due to the increasing share of financing and transportation and communication sectors. However, the gross savings in other sectors are either declining or at least fluctuating.

The data tabulated above is sufficient to show the fact that the public enterprises in Nepal have not been able to increase the share of retained earnings over the gross savings. As a result, the enterprises have not been able to finance the expansion and growth from the internal sources. In Nepal, as we shall see later, most of the public enterprises are either running at a loss or earning a negligible profit. So, the enterprises are not in a position to retain funds and employ them to earn higher returns because of low profitability. However, in the advanced capitalist countries like the U.K. and U.S.A., internal resources account for over 70 percent of the total resources for corporate finance.

111) Contribution to the Treasury - The public enterprises in Nepal contribute to the treasury in the form of direct taxes like income tax, indirect taxes which include

excise, sales tax, custom duty, etc., interest on Government loans, royalty and dividend. Table 3 shows sectoral origin of the public enterprises' contribution to the treasury and its index. It is evident from Table 3 that the share of indirect taxes was the largest in all the years. It was Rs.75.0 million in 1972-73, and rose to Rs.235.5 million in 1974-75 which is 83% of the total contribution for the same year. The institutionalization of import of petroleum products in 1973-74 and the institutionalization of paddy and rice export business under public sector in 1974-75 were the contributing factors towards the increased amount of indirect taxes. The second largest contribution is in the form of direct taxes. It was Rs.29.7 million in the year 1974-75 which is higher than preceding years. The rise is attributed due to the profitability of paddy and rice exporting companies. The direct taxes in the year 1974-75 is 10.5% of the total contribution for the same year. The contribution in the form of dividend, interest, and royalty is quite marginal.

Looking at the sectoral origin of the contribution of public enterprises, the trade sector has contributed the highest for all the years. It was Rs.38.7 million in 1972-73 and increased by slightly over three times in 1973-74. It further recorded an increase in 1974-75 over the earlier years. In the year 1974-75, it stood at Rs.181.5 million which is 64% of the total contribution. The second largest

Table No. 3
Financial Contribution to the Treasury

(In Million of Rupees)

Sector	<u>Dividend</u>			<u>Direct Taxes</u>			<u>Indirect Taxes</u>			<u>Interest</u>			<u>Royalty</u>			<u>Total Contribution and Index</u>					
	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	Index for 1972/ 73= 100	1973/ 74	Index 1973/ 74	1974/ 75	Index 1974/ 75
Trading	0.4	-	0.3	5.3	0.4	20.9	32.9	120.9	157.9	N	N	2.1	0.1	0.1	0.3	38.7	100	121.4	311	181.5	469
Manufacturing	1.7	3.0	1.1	2.3	1.9	3.4	36.8	42.1	69.7	0.7	0.7	1.4	3.3	2.5	2.5	44.8	100	50.2	112	78.1	176
Financing	0.1	1.0	1.6	1.7	2.2	4.8	-	0.2	0.2	1.9	2.4	2.6	-	-	-	3.7	100	5.8	158	9.2	251
Transport & Communication	-	-	-	0.1	0.1	0.6	3.3	4.6	3.7	0.3	0.8	0.9	-	-	-	3.7	100	5.5	145	5.2	137
Electricity	0.1	-	-	0.3	-	-	0.7	0.9	2.2	-	-	-	2.8	3.2	5.5	3.9	100	4.1	104	7.7	196
Construction	0.3	0.3	-	1.1	1.2	-	1.1	-	1.7	-	-	-	-	-	-	2.5	100	1.5	61	1.7	69
Miscellaneous	-	-	-	-	-	-	0.2	0.1	0.1	-	-	-	-	-	-	0.2	100	0.1	50	0.1	27
Total Contribution	2.6	4.3	3.0	10.8	5.8	29.7	75.0	168.8	235.5	2.9	3.9	7.0	6.2	5.8	8.3	97.5	100	188.6	193	283.5	290

Notes: 1. Source: Compiled and calculated from the Profiles.

2. N. Stands for negligible, which is less than 0.05 million.

contribution comes from the manufacturing sector. It was Rs.44.8 million in 1972-73, and increased slightly in the year 1973-74, reaching Rs.50.2 million. There was a further rise in the year 1974-75 reaching Rs.78.1 million which is 28% of the total contribution. So, the two sectors - trading and manufacturing - combined together share 92% of the total contribution in the year 1974-75. To note here these two sectors only account 22% of the total net capital, employed for the year 1974-75. Other sectors like finance, electricity and transport and communication have contributed marginal amount. The amount contributed by construction and miscellaneous sectors is quite negligible and decreasing over time. On the whole, the total contribution has almost trebled in the year 1974-75 compared with the year 1972-73.

The above analysis makes it clear that the contribution by the public enterprises to the Treasury has been on the increase, and of course, this is an index of their better performance with the passage of time. But the contribution in the form of dividend is quite poor. In case of other forms of contribution to the Treasury, even the private sector was contributing prior to the institutionalization of some of the items like the petroleum products, and paddy and rice trade. When judged from this angle, we should hesitate to mark the performance as "better". The only thing the government has done is that it has taken over the trade of certain items from the private sector and channelized through certain

institutions. However, the data is not available to compare the magnitudes of financial contribution from two alternatives in order to get an idea regarding which alternative (private or public) is more effective means of resource mobilization. So, at this stage, it is difficult to say that public enterprises have become a more effective means of mobilizing resources needed for accelerating the pace of our economic development.

iv) Rate of Return Analysis :

In this section we shall make an attempt to analyse the rate of return on net capital employed and networth and the dividend pay-out ratio. The rate of return is based upon the gross profit before tax figures. The term 'net capital employed' covers the total of net fixed assets plus working capital, working capital being the excess of current over current liabilities. The networth has been calculated by adding up capital, reserves and undistributed profit and loss.

Rate of return on net capital employed is the broadest measure of overall financial performance of an enterprise. In fact, a high rate of return is an indicator of financial strength. In the Nepalese context, too, the performance of public enterprises should be judged in regard to financial performance, as the government expects to mobilise through it the internal resources needed for accelerating the rate of growth.

Table 4 gives the details of the rate of return and

Table No. 4
Rate of Return

Sector	Net Capital Employed (in Million of Rupees)			Networth (Rupees in Million)			Gross Profit before Taxes (Rupees in Million)			Return on Net Capital Employed (%)			Return on Networth (%)			Dividend Pay-out Rates (%)		
	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75	1972/ 73	1973/ 74	1974/ 75
Trading	52.5	49.9	49.9	61.7	56.2	120.8	12.0	-3.9	2.1	22.8	-7.8	4.3	19.4	-7.0	1.8	0.9	-	0.4
Manufacturing	178.0	210.8	246.9	176.6	201.1	224.1	19.4	22.5	23.7	10.9	10.7	9.6	11.0	11.2	10.6	1.2	2.0	0.7
Financing	345.3	480.6	556.8	161.5	199.2	220.1	5.7	9.9	20.2	1.7	2.1	3.6	3.5	5.0	9.2	0.04	0.6	0.8
Transport & Communication	221.5	243.1	246.8	113.4	115.9	127.0	-6.5	-1.1	10.1	-2.9	-0.5	4.0	-5.7	-0.9	8.0	-	-	-
Electricity	133.3	132.6	244.4	28.5	28.9	261.1	1.5	0.9	-17.6	1.1	0.7	-7.2	5.3	3.2	-6.8	0.4	-	-
Construction	6.7	12.1	8.8	6.7	12.1	8.8	1.9	3.8	-1.5	28.8	31.2	-16.8	28.8	31.2	-16.8	10.0	10.0	-
Miscellaneous	5.0	8.1	16.1	5.1	8.3	17.4	-0.3	-1.0	-0.5	-6.6	-12.8	-3.1	-6.4	-12.7	-2.8	-	-	-
Total	942.3	1137.2	1369.7	553.5	621.7	979.3	33.7	31.1	36.5	3.6	2.7	2.7	6.0	5.0	3.7	0.5	0.8	0.3

Source: Compiled and calculated from the Profiles.

dividend pay-out ratio (i.e. dividend on paid-up capital). The table shows that the net capital employed in public enterprises and the network has been constantly increasing. The net capital has increased tremendously over years due to an increase in the assets of electricity, financing and manufacturing sectors. For example, the net fixed assets of Nepal Electricity Corporation almost doubled from Rs.125.9 million in 1973-74 to Rs.245.6 million in 1974-75. In the case of networth trading and electricity sectors have been responsible for the increase. In the year 1974-75, rice and paddy export companies were established which helped to raise the networth of the trading sector. However, it has not increased in the same way as the new paid-up capital was brought into use. It was because of heavy losses incurred by NTL and Jute Development & Trading Corporation and some other enterprises. For example, the losses incurred by NTL alone in the year 1974-75 was Rs.24.5 million. In the electricity sector, the paid-up capital of Nepal Electricity Corporation increased ten times in 1974-75 from Rs.25.6 million to Rs.259.5 million, and Eastern Electricity Corporation was established by taking over the ownership of Morang Hydro-electric Supply Company Ltd., and Dharan Electric Supply Company. However, the net-worth in the electricity sector has not increased to the same extent as it should have been, because NEC incurred a huge loss in 1974-75. Its undistributed profit and loss was negative to the tune of Rs.19.1 million.

All other sectors have shown an improved trend except the construction.

The aggregate gross profit before tax figure shows a fluctuating trend. The financing sector shows a continuous upward trend, followed by manufacturing. However, in other sectors the record is quite distressing. The trading sector could not show a record profit despite the huge profits earned by the paddy and rice export companies. As stated above, it was because of huge losses incurred by NTL and Jute Development and Trading Corporation.

Now, let us turn to the sectoral position of the rate of return.

The rates of return on net capital employed as well as networth was quite good in the year 1972-73 for the trading sector. But for the year 1973-74, the return was negative due to the heavy loss incurred by Nepal Oil Corporation (Rs.8.9 million). For the year 1973-74, the net capital employed and networth has reduced. But in the year 1974-75 the networth has more than doubled compared with the previous year because of the institutionalization of paddy and rice export business.

Regarding the manufacturing sector, both the net capital employed and networth showed an upward trend. But the profit performance has only slightly improved. As a result, the return has been slowly decreasing every year.

The contribution of financing sector has been constantly improving. Although both the net capital employed and net-worth has been increasing, the gross profit has improved quite well. As a result, the returns have been increasing every year.

The transport and communication sector could not fare well in 1972-73 due to heavy losses sustained by the RNAC and Nepal Transport Corporation. However, the performance of this sector is improving over time, and the rate of return on net capital employed and networth shot up to 4% and 8% in 1973-74 and 1974-75 respectively.

Till the year 1973-74, the electricity sector was showing a positive rate of return on both the net capital employed and networth. However, due to the loss incurred by NEC to the tune of Rs.18.3 million, there appeared a negative rate of return in 1974-75.

Although the construction sector was doing quite well till the year 1973-74, it showed a negative rate of return on both of its net capital employed and networth.

Finally, the performance of the miscellaneous sector is quite discouraging and has been showing negative profit records.

The profitability of public enterprises may be judged by the dividend on share capital. But the dividend has been declared only by some of the sectors. The trading sector has declared dividend only for two years, namely, 1972-73 and 1974-75. But the dividend payout ratio is less than one

percent. For the year 1972-73, only NTL declared a sum of Rs.0.4 million. In the year 1974-75, out of the fourteen enterprises, Narayani Paddy and Rice Export Company was the only enterprise which declared a dividend of Rs.0.3 million. Manufacturing sector has been able to declare the dividend for all the three years. For the year 1972-73, Timber Corporation of Nepal (TCN), Janakpur Cigarette Factory (JCF), Raghupati Jute Mills Ltd., and Royal Drugs Limited declared a total dividend of Rs.1.7 million. In the year 1973-74 Birgunj Sugar Factory was added to the dividend paying group. These five enterprises declared a total dividend of Rs.3.0 million. However, in the year 1974-75, only TCN and Birgunj Sugar Factory was able to pay the dividend amounting to Rs.1.1 million. In the financing sector the dividend payout ratio has been slightly improving every year. The electricity sector has been able to pay 0.4% dividend only for the year 1972-73, and the construction sector 10% for the first two years. However, the transportation and communication and the miscellaneous sectors have not been able to pay any amount in the form of dividends.

On the whole, the performance of public enterprises in Nepal from point of view of the rate of return on net capital employed and networth, and dividend pay-out ratio is quite distressing. It is quite clear that the enterprises are not successful when judged from the objectives of increasing the value of the enterprises and increasing the economic growth

rate of the nation.

Thus, from the foregoing analysis it is clear that the financial performances of public enterprises in Nepal is very poor, and it can be observed that public enterprises as a source of augmenting internal resources required for speeding up the rate of our economic growth has not been achieved so far.

CHAPTER V

MANAGEMENT STRUCTURE OF PUBLIC ENTERPRISES IN NEPAL

The present chapter shall be studied under three groups :
(a) Government enterprise relation; (b) Bureaucracy Vs Autonomy; and (c) Top Management which includes the Board of Directors and the Chief Executive. The analysis will be on the assumption that success of an enterprise depends much upon these factors.

Relation with the Government

As we have already said earlier, the acceptance of state-owned enterprises as an institutional vehicle for transforming primitive feudalistic economic structure into a modern welfare-oriented society was merely accidental. The evolutionary pattern clearly showed that the establishment of public enterprise was only to solve the immediate troubles faced by the government. At that time the government felt the need of such specific action in a particular facet of the national economy. But, because of confused political atmosphere in the country, perspective thinking regarding the ultimate role of public enterprise, which was supposed to play for the development of the national economy over a certain period of time, was totally neglected. In fact, bureaucracy lacked consistent expertise direction as to the institutional innovation and strategies to be pursued for development. For the implementation and

management of modern state business complex, mature thinking and expertise were completely non-existent in the country. Still, this vital aspect, which is so much urgent for the development of the national economy was not given due attention. Thus, we can safely conclude that the growth and development of state enterprises in Nepal was entirely based upon the trial and error method and piecemeal approach.

The absence of perspective thinking while accepting the public enterprise as an institutional vehicle for national development created a confused relationship between the government and the enterprise. As a result, there appeared the lack of co-ordination among the enterprises. It occurred not only among the various enterprises under various ministries, but also even under the same ministry. In this regard some instances will be cited to show how arbitrary decisions were taken which badly affected the growth and development of the enterprises. In fact, sometimes the decision of one enterprise has even endangered the very existence of another enterprise.

Let us first of all take the case of Banswari Leather and Shoe Factory. Its sponsoring authority is the Ministry of Industry and Commerce. When National Trading Limited, also sponsored by the same ministry, imported cheap shoes from the People's Republic of China, the inventory position of Banswari piled up to a point where it was virtually ready

for going into liquidation.¹ This is the case of lack of co-ordination between two enterprises under the same sponsoring ministry.

Now let us turn to a case where two ministries are involved. For example, Royal Drugs Limited under the Ministry of Forests was producing toothpaste which was gradually and successfully picking up the market. Meanwhile, National Trading Limited imported the same item and sold it in the market at a much cheaper rate. Thus, the new toothpaste produced by Royal Drugs Ltd., was forced to go out of market. Consequently, the toothpaste producing unit was closed.

The two examples cited above are enough to make clear the utter lack of distinctly defined government - enterprise relation. This, then, has created confusion among the ministries as to the question of direction and control. Actually there is no unity of command, and its absence has hampered the working of the enterprise. At times, a number of ministries and agencies may also be sending mutually contradictory directions to the same enterprise. For example, a manufacturing enterprise under the Ministry of Industry and

¹ Banswari Leather and Shoe Factory set up in 1965 was suffering from the accumulated losses amounting to Rs.4.29 million as of 1970-71, which came to be more than 50 per cent of its paid-up capital. The losses were met by HMG by increasing its paid-up capital every year. For an excellent micro analysis of BLSF, see : MCC Report, pp.290-304.

Commerce has taken certain investment decisions. Now the decision has to be sanctioned by the Ministry of Finance. At the same time inquiries will be flowing in from the National Planning Commission while the Ministry of Industry and Commerce will be issuing orders that refuse to recognise the role of the Ministry of Finance or the National Planning Commission.²

From the technical point of view, the sponsoring ministry is supposed to be directing and controlling body of an enterprise. It is, therefore, quite logical that the enterprises' decisions have to go through it. But it is ironical that even not a single ministry has an individual or a section inside it for keeping watch in the affairs of the enterprises under it.

Thus the undefined relation between the government and the public enterprises has been the critical factor in arresting the rapid development of the public enterprises in the country. So, in 1974, HMG being tempted to introduce certain reforms in the public enterprises, announced the establishment of Corporation Co-ordination Council. It was set up as an advisory body to co-ordinate the different public enterprises under the jurisdiction of various

²MCC Report, *ibid.*, p.88.

ministries³. In fact, it was a positive step in the right direction. BUE, HMG recently took decision to dissolve it and put it under the Ministry of Finance by creating 'Corporation Co-ordination Division' under a Joint Secretary.⁴ The decision to dissolve C.C.C. does not seem to be a wise decision when judged from the present state of functioning of public enterprises in Nepal. The establishment and dissolution of C.C.C. within a few years of existence shows the immaturity and lack of pre-thinking on the part of Nepalese planners and policy-makers.

In the following paragraph we shall briefly see the government - enterprise relationship in India.

In India, there is provision for government directions, except under the Industrial Finance Corporation Act.⁵ The potential powers are retained by the Government to curb action of public enterprise in the national interest. In India, too, the interference in the affairs of PES has been both formal as well as informal. Still state-enterprise relation in India is in a much better situation than in Nepal. In India an enterprise has to basically follow the directions given

³ Rajbhandari O. and Pathak, J.K. (Ed.), "From the Editorial Desk", Nepal Journal of Management Quarterly No.7, Dec.1974, Kathmandu : Management Consultants & Co., pp.iii-iv.

⁴ The Gorakhapatra (Govt.owned Vernacular Daily) April 14, 1979 (news item).

⁵ Ramanadhan, V.V., The Structure of Public Enterprises in India, op.cit., pp.164-65.

by its sponsoring ministry, and the enterprise is responsible to it. However, in the U.K. things have worked satisfactorily. The Minister concerned does not interfere in the day-to-day administration.

The U.N.Rangoon Seminar Report states that "the principle of ministerial control over public enterprise is accepted in almost all the countries in the ECAFE region and the present stage in the development of these countries makes it essential that such enterprises should be co-ordinated into national economic programmes at the ministerial level."⁶ But there should be a balance between the control and autonomy and the area of control should be clearly defined. In the name of national interest, the bureaucracy should not interfere even in the day-to-day management of public enterprises. The instructions to an enterprise should not be issued simultaneously by a number of ministries and agencies.

Now, in the next section we shall examine the corporate autonomy keeping in mind the government-public enterprise relation in Nepal.

Corporate Autonomy Vs. Bureaucracy

Corporate autonomy has become a topic of wide controversy among the politicians, people at large and micro and macro

6
U.N. Technical Assistance Administration, Some Problems in the Organisation and Administration of Public Enterprises in the Industrial Field (Rangoon Seminar Report), New York, 1954, p.23.

management. In Nepal the second plan outlined the policy of adopting autonomous enterprise as an institutional medium for promoting growth in many areas of the nation's economy. At that time, it was felt that if the public enterprises are given enough autonomy, they would be more efficient than the regular bureaucracy in performing many specific economic functions. Actually, in many countries, the whole idea of bringing up the corporate form was to free the enterprises from the over-centralization of powers in the government, and also to ensure freedom from red-tapism, treasury control, political direction and civil service regulations. In substance, the general assumption is that the bureaucracy tends to be oriented more towards procedures rather than the results. On the other hand, a corporate form was supposed to put greater emphasis towards more results because of its functional autonomy and its orientation towards business principles. In fact, this view is quite logical; and this should be the basic motive behind establishing the public enterprises. In addition, several departmentally-run enterprises were converted into public enterprises. Presently, under our definition, as outlined earlier, there are 45 public enterprises operating in various facets of national economy. They are operating under various legal status like Special Act, Company Act, Corporation Act and Communication Corporation Act.

There cannot be two questions regarding the provision

of providing autonomy to public enterprises. But the main important question is : how far are the Nepalese public enterprises enjoying the autonomy? To answer this question, we shall, in the subsequent section, examine the nature and extent of autonomy enjoyed by the public enterprises in Nepal. This will partly be based upon the MCC report.⁷

Autonomy and the Public Enterprises

In a public enterprise the highest authority to exercise the autonomy is the Board of Directors. The function of the Board⁸ is mainly two-fold : (a) to formulate broad strategies in order to achieve general objective laid down in the document of incorporation in line with policy instruction received from the government, and (b) to frame operational policies in general terms to be executed by the Chief Executive of the enterprise. The functions are clear, and seem to be too simple and easy to accomplish. But, the management has been forced to work in a peculiar environment.

In Nepal, the public enterprises are given autonomy in words. This is even mentioned in the act of incorporation of almost all the public enterprises. However, a mere

⁷ MCC Report, pp.92-95. Also based upon the interview with 25 Chief Executives of Nepal.

⁸ The Board of Directors shall be discussed in the Top Management Section.

intention or willingness to provide independent status even in the written form unless backed by actual implementation has little practical relevance. The study conducted by MCC reveals that 'almost all of the Chief Executives, some of these are also Chairman of the Board, have felt that they have only responsibility without authority'.⁹ They have frankly spoken in course of interview with the present writer that they feel, they have to encounter unnecessary interference from the government and various other agencies and influential individuals.¹⁰

There are many cases where the Corporation management is not even allowed to discharge its regular management functions. Let us take the case of Birgunj Sugar Factory.¹¹ An interview with the General Manager of the Birganj Sugar Factory Ltd., revealed that all the decisions concerning fixing of sugarcane price, sugar price, mode of distribution, capital budgeting, etc., are directly controlled by the Government. As an autonomous body, the factory management has virtually nothing to do except to pay wages, maintain accounts and records.¹²

9

MCC Report, p.93.

10

Based on the interviews with Chief Executives. Some of the Chief Executives went on disclosing the fact that even for the appointment of peons, several phone calls are made.

11

For an excellent discussion, see : Lohani, P.C., "Analysis of Industries in Birgunj Hetauda Corridor", CEDA (cyclostyled), 1970.

12

MCC Report, p.94.

This is the case with many other enterprises. In fact, the vital decisions regarding pricing, capital expansion, fixation of targets, opening of branches and the like are all controlled by the concerned Ministry and in a few cases even the Cabinet is involved. This shows how much the public enterprises in Nepal are enjoying the corporate autonomy. Thus, it is clear that the concept of corporate autonomy has found no operational role to play in the country as yet. As a result, the corporations have not been able to achieve better results. In this way, the whole concept of autonomous corporation as a means to achieving greater efficiency and bringing innovations has been impaired and misguided, and independent status has been distorted by the responsible people inside the bureaucracy. So, until and unless the vested interest groups inside the bureaucracy are not kept aloof from interfering unnecessarily in the affairs of the public enterprises, the autonomy will be a far-distant dream. It will only be given in words and not in action. Because of this, the public enterprises will be gradually becoming a part of regular bureaucracy with the same sort of official procedures. At this moment it would be quite appropriate to quote one of the UN Seminar reports that 'the role expected of public enterprises in many development plans, under different conditions prevailing in developing countries, seem to call for real innovators in this sector of the economy. Public enterprises, however, are not likely to

breed such innovating managers unless a break is made with the present trend towards bureaucracy in this sector. Public enterprise managers (including the board members) who are obliged to follow detailed instructions and abide by a 'detailed rule book' cannot develop the creativity needed for successful performance in competitive situations."¹³

The lack of autonomy in the public enterprises and the unnecessary interference from the bureaucracy will lead us to examine the top management structure. It will clearly throw light on the condition under which the public enterprise management has to play its role in the country. So, in the following sections this point will be discussed in detail.

Top Management : Board of Directors

The enterprises in Nepal are managed by the autonomous governing body known as "Board of Directors". The legal statutes governing their establishment and working provide for the constitution, composition and functions of the board. The board is, in fact, the instrumental organ in steering the public enterprises to achieve the objectives.

The Board of Management of public enterprises is an accepted practice where the concept of public enterprise

system has been adopted. The important matters, according to William A. Robson, with which the Board of a public enterprise has to deal include the appointment of the chief executive, and the principal officers, to chalk out programmes - physical and financial, maintaining the relation with the government, decisions regarding finance, prices, capital expenditures, dividends and reserves, etc.¹⁴ But almost all these aspects are the domain of the government in Nepal and the public enterprises do not dare to do anything without prior approval of the government. In theory, the Board is the top policy formulating and decision-making body, but in practice, in Nepal, everything has to go through the concerned Ministry.

The Board may be a 'policy' or 'functional' Board. The tendency at the present time is dominantly to establish 'policy' Boards in most countries in preference to 'functional' Boards. For example, in Japan, the Board of Directors is a "policy determining body"¹⁵. In France, "the Governing Board is supposed to decide all major questions of policy."¹⁶

¹⁴ Robson, W.A., Nationalized Industry and Public Ownership, op.cit., p.212.

¹⁵ Okabe, Shiro, "Public Corporations in Japan", Indian Journal of Public Administration, Jan.-March, 1955, Vol.No.1, New Delhi, p.219.

¹⁶ Robson, W.A. (Ed.), Problems of Nationalised Industry, London, 1952, p.263.

In India too, the thinking seems to be tilted over the policy Boards, as in most of the public enterprises the majority of the members are part-time. Although in India, we find boards with a mixture of part-time and whole-time members, the majority of the boards of management established in the company form consists of part-time members. It has been calculated that the percentage of part-time directors on boards of companies is well over 80 percent.¹⁷

Size of the Board

There is no hard and fast rule regarding the size of the Board. In fact, the size depends upon the size of the corporation, the multifariousness of activities, etc. But it should neither be too small to be dominated by a single man nor too large. Prof. Robson is in favour of "flexibility of members" for "ministers to have a certain latitude in determining the size of the Board".¹⁸ Khera says that the figure for the average Board could be fixed at about seven to nine directors.¹⁹

¹⁷ Khera, S.S., Government in Business, New York, 1963, p.65.

¹⁸ Robson, W.A., Public Enterprise, London, 1937, p.93.

¹⁹ Khera, S.S., op.cit., p.63.

In England, the various Acts simply indicate the lower and the upper limits of the number of members that the Board can have and the Minister is free to appoint any number of members within these limits. In India, too, the size of the Board varies. While some statutes stipulate the exact number of members, others only mention the maximum. The DVC Act lays down that the Corporation shall consist of three members. Others like State Bank of India Act and the Employees' State Insurance Corporation Act fix in the Acts themselves as to how many constitute the board. Life Insurance Corporation of India fixes the maximum number that could be appointed. However, the Air Corporation Act merely mention the maximum and minimum number that may be appointed to the Boards.

Generally, in India, financial institutions tend to have a bigger size of the Board. It may be because of need to provide representation to various interests. The Reserve Bank of India and the State Bank of India have fifteen and twenty members respectively. Perhaps, the Employees' State Insurance Corporation, with 34 members, heads the list. Anyway, the question of the size of the Board is linked up with the question of giving representation to various sectional interests. However, the single directorship system, which is quite common in the USSR and People's Republic of China would be followed in many of the small-sized

20

enterprises in India.

In Nepal, only a few Acts of incorporation specify the size of the board. For example, the Communication Corporation Act has fixed the members at five. The R.N.A.C. Act and the N.I.D.C. Act have fixed the total members at six and seven respectively. The N.C.C.N. is composed of five members. The average number of members in the Board is six. A study of the 45 enterprises reveal that out of the total of 265 members including the Chairman and in some cases the General Managers, only 14 per cent are full time members. However, the full time members are either the Executive Chairman or the General Manager.

Composition of the Board and Tenure of the Members :

Whatever the form of organisation and the size, the success or failure of public enterprise depends to a considerable extent on the quality of the Board. The Constitution and composition of the Board of Directors is of vital importance for the efficient and successful working of a public enterprise. The membership to the Board should be open to the persons having ability, experience and

administrative competence.

In India, the situation regarding management is set out in certain decisions taken by the Government of India. A statement of these decisions which relate to the composition of the Boards of Directors of the Government Companies and Corporations may be briefly restated here.²¹

1. Members of Parliament should not be appointed Board of Directors.

2. The Managing Director and/or Chairman should be appointed by Government, and, except in the case of very small concerns, should be full-time.

3. No Secretary of a Ministry or Department shall be a member of any Board.

4. There should be no objection to the appointment of part-time Directors.

5. Government should have freedom to appoint persons of general experience drawn from outside the undertaking, both officials and non-officials.

6. No full-time non-official Director should have any business connection with the Company.

7. As regards representation of labour on Boards of Directors, though it is not intended to prohibit the appointment

21

Khera, S.S., op.cit., pp.77-78.

of representatives of labour unions of the public sector undertaking concerned as directors, it would be more appropriate and desirable to have a representative of the labour movement from outside the undertaking appointed as a director.

8. It would not only be advantageous but necessary to have one representative of the Finance Ministry and one representative of the administrative ministry on the Boards of Directors.

In India Central Government is the appointing authority when all the share capital is subscribed by it. Non-officials are also appointed to the Boards, and in 1961, the ratio of officials to non-officials was about 2:1. In India, workers' participation, though accepted in principle and laid down as part of its policy and programmes by the Government, has not yet made sufficient progress or impact in the actual working of the Government enterprise²². But, even if outsiders and labour leaders are appointed, they would generally belong to the party in power. In Sweden, a study on the composition of the Boards of Directors of Government enterprises showed that around 45 per cent were drawn from amongst the ranks of business people.²³ In Yugoslavia, the management of enterprises

22

ibid pp. 68

23

Verney, Douglas V., Public Enterprises in Sweden, Liverpool University Press, 1959, p.45.

is through workers' council. In France too, the Boards of Management include workers' representatives. There the governing bodies of public corporations are formed on the tripartite principle with equal representation of workers, consumers and State. But this method has not been effective. In fact, "it is the weakest feature of French legislation and is a threat to the successful operation of the French nationalised industries."²⁴ However, the British trade unions have felt that "they can best serve the interests of their members by preserving their full independence as negotiating and advisory bodies, which they would tend to lose if their officials led to act in two capacities, as workers' representatives and as board members."²⁵

To safeguard the consumers' interest, there should also be some provisions. In France, consumers are represented in the Boards of Management, although it has not been much effective. In the U.K. there is provision of the Consumers' Council.

However, in Nepal there is no practice for the consumers' as well as workers' participation in the management of government enterprises. In fact, the consumers are completely

²⁴ Robson, W.A. (ed.), Problems of Nationalized Industries, op.cit., p.263.

²⁵ Hanson, A.H. (Ed.), Public Enterprise : A Study in its Organisation and Management in Various Countries, International Institute of Administrative Sciences, 1955, p.195.

at the mercy of the Government. Regarding workers' participation, there is no organized labour union in Nepal and the Government being the sole employer in the country, the labourers are always scared of losing their jobs.

In Nepal, the outsiders are represented in only a couple of fully government-owned enterprises. For example, NIDC has two board members from the private sector appointed by HMG. Similarly, in RNAC, three outsiders are represented in the Board though no such conditions are laid down in the Act. In some public enterprises like Transport Corporation of Nepal, there is a tradition to nominate one member from the clientele. The Gorakhapatra Corporation Act provides for the representation of employees in the Board and so far this is the only corporation where an employee has been nominated. The Cultural Corporation and the Ratna Recording Corporation Acts make provision for the appointment of three professionals from among the local artists to the Board.

In the beginning of the development of public enterprises system in Nepal, the Ministers took up the chairmanship of the enterprises as a part-time job. As time passed by, the problem of government control of the public enterprises gave rise to considerable controversy which led to the withdrawal of the Ministers from the chairmanship. Now the practice is to appoint the retired secretaries, and other higher level civil servants as chairman to the Boards of Directors of various public enterprises. Any way, they are basically

the bureaucrats who try to pull on the administration of the corporate sector in the same bureaucratic lines under red-tapism which is just against the philosophy and spirit of public enterprise autonomy.²⁶

Meanwhile it would be appropriate to analyse the representation to the Board of 45 enterprises. The average number of members in the Boards of public enterprises is six.²⁷ The percentage of representation to the Board is as follows : (a) 67.6% representation from HMG. (b) 24.9% from various organisations (including public enterprises and Nepal Rashtira Bank); and (c) 7.5% from private sector.

To note here, the Government nominates all the Board members where it holds 100% equity. Only in the mixed enterprises the private persons are given proportionate representations. The public enterprises appoint its persons in the Board of its subsidiary enterprises.

In Nepal the members of the Board of Directors generally oscillate between two extremes. Either they trust completely in the chief executive, much as a sovereign in feudal times, or, they tend to go into the details of all sorts of aspects

26

See : Pathak, J.K., "A Financial Study of N.I.D.C." ; A Case Study submitted to Tribhuvan University in partial fulfilment of M.Com.Degree, op.cit.

27

In the 45 enterprises there is a total of 265 directors plus one observer and two secretaries to the board who are not the members. The directors include the Chairman and in some enterprises the general managers too. However, if we deduct 27 members who are elected by virtue of their private shareholdings, the total comes to be 238.

of organisation and implementation and keep as much power as possible in their hands.²⁸

The tenure of the members of the Board of Directors including the Chief Executive depends upon the wishes of the government, and is changing which hampers the growth and development of the enterprise due to lack of continuity in policy-making. So, it can be safely said that the composition of the Board of Directors of public enterprises in Nepal is not conducive to efficient management.

The Special Acts like NIDC and RNAC have specifically fixed the tenureship of the members of the Board as two years. But the public enterprises established under the Company Act has fixed at a four. In Nepal most of the enterprises are established under the Company Act. So, the tenureship would be four years in most cases. The study conducted by CCC has recorded the following frequency regarding the reorganisation of the Board :²⁹

- (a) 9.7 % served as board members for less than one year;
- (b) 29.0 % between one to two years;
- (c) 25.8 % between two to three years; and
- (d) 35.5% serving for more than three years.

28

Rana, Pashupati, S.J.B., and Malla, S.K., "The Board of Directors and the Chief Executive", Top Management Seminar, Kathmandu : CBDA, 1972.

29

CCC Report, p.131 (49 enterprises taken together)

But, to note here, 35.5 per cent members serving for more than three years of tenureship is not solely for the membership of the board under study but includes their board membership in other public enterprises also where they had served before. So, it is enough to say that the people are not staying in a Board for a long time, which, we feel, is not conducive for the efficient running of the enterprises.

The members in the board except the chief executive are appointed on the part-time basis. Their services will be available only when they are called for the meeting by the Chairman. The members are not really concerned about the plan, policy and progress of the enterprise. They just collect their meeting fees and have a nice lunch or dinner after the meeting is over.

The composition of the Board and the tenure of the members reveal the following facts :

First, the members, being mostly drawn from the bureaucracy, try to safeguard their own personal position, and avoid to take risky decisions.

Secondly, because of quick turnover of the chief executives, no particular chief executive could be held accountable for any mismanagement.

Thirdly, the representation of the private sector is too small; they cannot help to solve the present situation. To note here, the members from outside the bureaucracy always tend to be ministers' favourites.

Thus, what is required in the public enterprises in Nepal is the correct outlook and a scientific attitude towards management, and a responsible Board. The practice of drawing members from the bureaucracy should be discouraged as far as practicable. But the concerned ministry and one or two more related ministries may be represented to bring about proper coordination and control. The principle of autonomy should be respected, and a wide representation in the Board should be made from among the economists, experts in the related fields, labour, if possible, and persons having managerial expertise.

In conclusion, we can say that the undefined and confused government enterprise relation, lack of autonomy and frequent interference even in the day-to-day affairs of the enterprises by the responsible people in and outside the bureaucracy, and the bureaucratic board have been responsible for the poor performance in terms of profitability of public enterprises in Nepal. As a result, the whole idea of bringing public enterprises by providing them autonomy for mobilising the internal resources required for accelerating the pace of our economic development has been primarily defeated. So, this is the high time for the government to probe deep into the present state of affairs.

Chief Executives

Every public enterprise in Nepal has either a general manager or executive chairman or executive chairman-cum-general manager, which we shall, in the subsequent section,

refer to as 'Chief Executive'. The Chief Executive is responsible for all the activities of the enterprise he belongs to. His main task is managing, organising, co-ordinating, directing, planning, controlling and reporting to the governing body.³⁰ He is exclusively accountable to the governing body. He executes policy and programmes within the framework of a former chain of command within the managerial hierarchy. However, a public enterprise manager will find the principle of "unity of command" and authority are subject to significant limitations in Nepal. The Board of Directors and other influential groups in the government are able to by pass him in influencing the direction of the enterprise. Often the chief executive has to contend with a number of 'do and don't dos' from other ministries and a number of HMG agencies.

Appointment

Generally the following are the important ways of appointing a chief executive in Nepal :

1. There is a full time general manager who will be the chief executive. The Board is headed by a part-time chairman. The chief executive, that is, the general manager in this case, has to work under the direction and supervision of the board and the part-time chairman.

30

See : Shrestha, J.B., "Role of Entrepreneurs and Managers in Nepal", Top Management Seminar, Kathmandu : CEDA, 1973 (mimeo).

2. A single person is also appointed as chairman of the board plus the chief executive, that is, the general manager. In such a case, the person will be known as the executive chairman.

3. Sometimes two different persons are also appointed as full-time chairman, known as executive chairman, and general manager, known as chief executive. But this is a rare case in Nepal. So, the above two cases are in practice in Nepal.

The general manager may or may not be a member of the Board. The appointment of general manager or the executive chairman is made by the government, and for this, there is no criteria so far. Generally, a chief executive with higher official status is found to be appointed as executive chairman. In case he is in lower status, he generally serves only as general manager.

Education and Training Background
of Nepali Chief Executives :

The public enterprises in Nepal are primarily managed by bureaucrats with poor managerial background. No doubt the chief executives are all graduates³¹, but "their academic background is so diversified that it ranges from degree in education to culture. The professional experiences are

31-

Among the chief executives, 42.2% are graduates and rest the post-graduate degree holders. See C.C.C. Report, p.128.

surprisingly ranging from that of a career diplomat to retired top civil servant."³²

Coming to the training aspect, about 77% of the chief executives got training outside the country. The period of training ranged from one month to one year. But only 7.7% were found to be trained in somewhat related field and the rest in irrelevant fields.³³ So, we can derive this conclusion that the chief executives in Nepal has had no management background and training in the related field for which they were supposed to provide leadership.

Demoralized Chief Executive

As noted earlier, the chief executives are normally appointed from outside the enterprise only for a certain period. Actually there is no fixed tenure of the chief executive. So, they can be withdrawn at any time at the sweet will of the government. There are numerous examples that by the time the chief executives know the problems, get acquainted with modern management techniques, formulate the plans and programmes and set policies, and finally, begin to implement the same, they are transferred to other jobs. Hence the continuity is lost when they are appointed from outside.

32

M.C.C.Report, p.129

33

C.C.C.Report,op.cit.

When the chief executives are appointed from outside, they usually come from bureaucracy. Here, anybody and everybody whether he is a retired general or a Zonal Commissioner or a technocrat, is fit for the post. They are still glad to hold the position although they know, they are quite unable to fulfil their duties. In a way, it has become a place for dumping the unwanted and unutilized bureaucrats. Still, the management is not given adequate authority and responsibility. So, the managers cannot be held responsible for failure to manage because they have never been given the freedom, the scope, and the power to manage. At the moment, it would be quite appropriate to quote Murray D. Bryce, when he says about government-owned projects that "in many countries they are notorious for preventing managers from doing their jobs, surrounding them with regulations and restrictions which make it utterly impossible for them to make management decisions on their own responsibility. The inevitable result of making a manager ask for sanction on every question is that, as he is not allowed the autonomy to manage, he cannot be held accountable when things go wrong." ³⁴

The appointment, promotion, transfer or firing of chief

³⁴ Bryce, Murray D., Industrial Development : A Guide for Accelerating Economic Growth, International Student Edition, Tokyo : Koga Kusha Company Ltd., p.159.

executives of public enterprises in Nepal is quite independent of the performance. When the free hand is not given; and no criteria is set for evaluating performance, the question of promotion, transfer or firing cannot be made on scientific grounds. So, he must be free to manage or he cannot be a manager. Once in an informal talk, a chief executive has aptly remarked that the promotion depends not upon the performance or the seniority but on 'how much political influence you possess'. However, many of the chief executives do agree that the promotion should be made on performance basis.³⁵ But, it is paradoxical to note that there are no criteria to evaluate the performances so far.

Thus, to make the chief executives responsible for all the acts done, his tasks must be defined, targets be fixed and the necessary facilities be provided, and above all, he must be given freedom to manage. If the chief executive is successful, he should be entitled to claim the credit and should be rewarded generously for his achievement. In other words, 'reward and punishment' criteria should be adopted, the absence of which will keep the top management in a demoralized and lethargic condition.

35

Based upon my interview with 25 Chief Executives of public enterprises in Nepal. My question was, 'What do you think to be the basis for your promotion?' (a) Job performance, (b) Seniority, (c) Educational qualification, (d) Political influence, (e) Any others.

CHAPTER VI

MOTIVATION AND FINANCIAL SETTING

In this chapter an attempt will be made to analyse the motivational aspect, especially personal development and incentives, and the financial setting in the public enterprises of Nepal. These two aspects are of utmost importance as the success of an enterprise is to a greater extent dependent upon them.

Motivation

Motivation is a process whereby people employed in an organisation are encouraged to increase their level of contribution for the realization of a set of objective either because of financial reason or through ideological identification or a combination of both. And the basic problem in any society is to motivate people. The motivation in public sector largely depends upon the personal development and incentives.

Among the various incentives, financial incentives is the most widely accepted. Financial incentives can take various forms like wage, salary, premium bonus, prize or return on investment. Alternatively money plays the role of motivating the employees. In our country, besides regular salaries and wages, other forms of financial

incentives are virtually non-existent. But performance above the required minimum may be rewarded with extra pay. From this the workers gain financially and the economy benefits from increased productivity.

Besides financial incentives, non-financial incentives like personality development, welfare activities, training programmes, job security, recognition and participation should also be recognized in the economy. The welfare activities and training programmes help to promote the efficiency of the workers and to increase productivity of the organisation. Job security and recognition also add to efficiency. But greater emphasis should be given on worker participation in planning and decision-making. At the same time, if an employee comes with concrete suggestions which when adopted results in improvements he should be paid for. This is completely lacking in our public enterprises.¹ The employees are not rewarded when they come with suggestions except a very few provide extra salary grades. Thus attempts should be made to stimulate better results through a system of adequate rewards linked with productivity, personnel training programmes, and programmes that encourage a sense of identification with the goals of the enterprise. If suggestions are

¹ See : MCC Report.

handsomely rewarded and various facilities are provided for research and development, innovation results in the national economy. Employee suggestion system played a vital role in the initial stages of development in both the socialist as well as the capitalist countries. In 1942, for example, the National Association of Suggestion System (NASS) was founded to assist member companies and agencies in the United States and Canadian industry, commerce and government to effectively implement of suggestions originating inside the enterprise.

In our country employee suggestion system is virtually non-existent. Even though new ideas originate, management is reluctant to change the status quo.² They discourage or sit on suggestions for fear that it may make them incompetent. However, in U.S.A., there are relatively little chances of holding suggestions since the private economy is supreme and there are numerous channels of communications open to the worker and many platforms from which he can propose his ideas. Basically in our country the government is the sole employer and there crops up no question of going against it in the public out of the fear of lossing the job.

So far employee's complaint is concerned, in Nepali public enterprises, there is no built-in system so that

2. *ibid.*

such complaint is duly channelised for consideration. An employee could go directly to the general manager or to the director to communicate his grievance. But there is no guarantee that his complaint would be listened to and proper attention given. An unhappy employee finds it too risky to his employment to express the cause of his displeasure for if his grievance is concerned with the superiors there is every chance that he may find himself transferred or denied promotion. He has to learn to accept things as they are without asking any question. Similarly, labour relationship is also quite a simple matter for a public enterprise manager. All the enterprises are governed by the State, and though strikes are not disallowed, the labourers seldom adopt such collective bargaining techniques except in a few enterprises where foreign labourers are employed. This is because the labourers in Nepal are unorganized.

Since most of the enterprises are incurring losses or making a dismal profit performance and they have to depend upon the state annual subsidy grant, no adequate provision has been made for labour and employee welfare like housing development, cafeteria, free medical facilities and similar services. Of course, Nepal Factories and Factory Workers Act makes provision of some of these facilities. But a very few enterprises have given free medical and housing benefits. One or two so called successful enterprises have provided house loan, insurance services, recreational facilities and

social services to its employees and labourers.³

Thus to make the personnel development working in an organisation, a clear policy of development of personnel through delegation of power and authority and provision of career planning and training should be formulated. In its absence the existing personnel do not develop and grow. The unmotivated employees will just avoid the responsibility and simply implement instructions without any question as to whether the instructions are right or wrong. At the same time, promising ones will start leaving the organisation, and as a result, it will adversely affect the productivity and profitability. Thus, one of the reasons for dismal profit performances may be the defective personnel policy.

In the U.K., the demand for nationalization came in large part from the trade unions. After nationalization, the Boards of Management were instructed to hold consultations with the trade unions for the training and education, and for the general improvement of the standard of efficiency. In fact, it is said that in the nationalised industries, the personnel management greatly improved in many respects, such as training and education, methods of promotion, work study, job

3. See : C.C.C. and I.S.G., Draft Report : Micro Study of Public Enterprises in Nepal (prepared for the second working meeting of the "Performance of Public Enterprises in Asia Project" held in Kathmandu, April 18-24, 1976, Part II, Subject Area - 2 Personnel Management. Also see : Agrawal, Govinda R., Some Observations on Personnel Management in Public Sector Enterprises of Nepal, Kathmandu, CEDA Occasional Paper, T.U., Oct., 1977, pp.1-23.

analysis, methods of payment, personnel records and personnel research. But, between 1947 and 1958, number of labour disputes increased tremendously in the U.K. from 1,635 cases in 1947 to 3,114 in 1958. However, it was still higher in the year 1956 and 1957, reaching 3,771 cases. The trade unions started blaming the management for adopting anti-labour policies. They charged that the Boards contained too many 'anti-socialists' and too few men with working class background and experience. Thus, it clearly shows that 'nationalization of an industry does not automatically result in the employees abandoning forthwith their traditional antagonisms and inhibitions, and endeavouring wholeheartedly to increase productivity. On the other hand, where good work-habits and attitudes were in existence prior to nationalization they are likely to be carried forward into the new regime.'⁴

In India, to improve the labour-management relation, a number of State Corporations have established management-labour organizations. These State Corporations include Air India, Indian Airlines, Hindustan Antibiotics Ltd., Hindustan Machine Tools Ltd., and Hindustan Insecticides Ltd. However, when Joint Councils are formed, the question of recognizing the Unions as a representative Union becomes a difficult problem;

⁴ See : Robson, William A., Nationalized Industry and Public Ownership, op.cit., Ch.XII on Labour Relations.

because in India, there may exist rival trade unions within an organization and they may like to pursue different political ideologies. The direct representation of the trade unions in the Boards of Management of public enterprises in India has not been encouraged. Only in few cases, some experts in labour matters have been chosen.⁵

Financial Setting

Sources of Capital :

In Nepal, the various sources of capital for the public enterprises are :

(a) Equity Capital:- In Nepal, most of the manufacturing and trading enterprises in the public sector are organised in the form of companies under the Nepal Company Act, and as such, they are financed in the form of shares, held by the government. They are also financed through the transfer of physical assets by HMG to the concerned public enterprises. In fact, the equity capital being the risk finance has the advantage that it does not have to carry with an annual overhead cost as in the case of loan finance. For public enterprises established under Corporation Act, Communication Corporation Act, Development Board Act, etc., there is no provision for the issue of share capital. The enterprises

5. Om Prakash, op.cit., pp.149-53

constituted under these Acts are supplied capital in the form of financial investment. Such financial funds are usually allocated in the annual budget of HMG. But there is provision of raising of funds for certain enterprises like N.I.D.C. from individual investors through selling of shares. This has not been done so far for private individuals put emphasis upon the rate of profitability and dividend payment. The enterprises have not been able to gain confidence of the individual investors that their investment in a particular enterprise are safe and return could be expected since most of the enterprises are running at a loss or earning accounting profit. The total equity capital supplied by HMG has tremendously increased from Rs.428.89 million in 1972-73 (30 enterprises) to Rs.902.85 in 1974-75 (43 enterprises) registering an average growth rate of 52.6 percentage over time.

(b) Subsidy and Grants :- An outright grant or subsidy is also given to the public enterprises in Nepal. These are directly received from HMG or from foreign donors through HMG. However, an outright grant is not a sound method of financing public enterprises because it may breed irresponsibility and inefficiency. As Hanson puts it : "The fact that a rate of interest and/or amortisation payments are included among the charges that a public enterprise is registered to meet, stimulates efficiency more powerfully than the mere announcement that, eventually, it will be

expected to yield a surplus of indefinite amount".⁶ The government has provided donations to five enterprises in 1974-75 amounting to Rs.7.05 million.

(c) Long Term Loans : The public enterprises in Nepal are authorised to borrow long-term loans from the financial institutions like Nepal Rastra Bank, Nepal Bank Ltd., Rastriya Banijya Bank, ADB and NIDC and also from the international agencies on HMG's guarantee. In India, they are in most cases authorised to borrow money from the market, except when they are set up as departmental enterprises. The total long term loans to PES in 1974-75 comes to be Rs.291.9 million out of which Rs. 280.4 has been provided by the government including foreign as well as Nepal Rastra Bank and the rest by other public financial institutions.

(d) Reserves and Depreciation Fund : These include the funds set aside for unforeseen, contingencies and replacement of machinery and equipment. It is also one of the important sources of funds for the public enterprises in Nepal. The total depreciation fund of forty enterprises in 1974-75 was Rs.154.6 million and the total reserves Rs.126.61 million (16 enterprises).

(e) Self-financing : The ploughing back of profits is of considerable importance to the public enterprises. In fact,

6

Hanson, A.H., Public Enterprise and Economic Development,

op.cit., p.430.

this happens to be a big source of financing in private enterprises, too.

The nationalised industries in the U.K. have done some self-financing. For example, B.B.C. has been financing its entire development out of a net proportion of the net license fee received by it.

In an underdeveloped country like Nepal, public enterprises should try to find out as much money for capital development from internal resources as they think possible. But, of course, it does not mean that they should utilise their monopoly positions. However, in Nepal, the present financial conditions and the results of the working of the enterprises cannot provide hope for the schemes of self-financing except in a couple of enterprises.

Financial Problems of PEs in Nepal

Financial problems of the Nepali public enterprises are really peculiar. In certain cases, the government and sponsoring authorities have not set any clear amount of capitalization. The general manager does not know legally⁷ or Physically what is his organisation's capitalization. In certain cases, the government has not made the valuation

7

Based on the interview with the Chief Executives

of assets transferred to the public enterprises even after a lapse of several years.⁸ Such irregularities on the part of government gives rise to much confusion. First, it makes it difficult to establish a meaningful accounting and financial reporting system. Second, lack of knowledge about the corporation's financial structure and assets means that when the government provides funds to cover losses, it has no idea of its relevance or usefulness to the enterprise. Thirdly, due to unsold and ever-increasing investment in inventory obviously due to seller oriented marketing principle, most of the enterprises are facing the shortage of working capital. Some have successfully managed to obtain funds from the commercial banks and other state agencies, but still others have not found way out. However, the ultimate result of this financial mismanagement has been to raise cost of production. Here again, 'there is no effort towards maintaining a balance between fixed and current investment since in many cases the management does not know the value of its fixed assets.'⁹ Thus, it indicates that financial management is the weakest point in the public sector enterprises of Nepal.

⁸
M.C.C.Report, p.123.

⁹
ibid., p.124.

When the financial problem becomes too critical, the government grants subsidy by way of share contribution and interest-free loan, and sometimes donations too. So far there has been no attempt to develop any financial participation formula for various kinds of enterprises. For example, Nepal Electricity Corporation finds it not economically possible to engage in the rural electrification. But with Ministry's order it has to carry this electrification programmes. Obviously, such action has negative effect upon the turnover ratios and profitability. There is no provision between the corporation and state on how to share the cost of rural electrification so that the loss arising out of such programmes might not undermine the performance of the management structure.

A public sector enterprise is free to adopt the accounting system to suit its requirements. However, the methods used by various enterprises are not uniform and it is not easily comprehensible. So comparisons are difficult.

One of the main reasons for adopting such a course of action seems to be built-in-interest of the management to hide irregularities and inefficiencies inside the enterprise. This has been made easy since in Nepal there is yet no central agency for establishing standard accounting procedures and financial reporting for public enterprises.

As a result of the lack of motivation in public enterprises and all the above mentioned financial problems, the performances of public enterprises in Nepal is far below

the expectation ¹⁰. One of the most important steps to improving the operation of the corporation will, therefore, be to fight with the emerging vested interest group on a national scale in an orderly and programmed manner. Without breaking this vicious circle, much organizational efficiency cannot be expected in the future.

¹⁰ The financial performance of public enterprises in Nepal has already been discussed in Ch.IV.

CHAPTER VII

CONCLUDING REMARKS

With the establishment of Nepal Bank Limited, the first commercial bank of the country in 1936, Nepal saw the beginning of modern large organizations. Since then the corporate structure has been widely adopted in the country both in the public and private sector as an institutional vehicle for national development.

With the coming of the corporate structure the owners are divorced from actual management of the enterprises they own, and instead, a board and chief executive appointed by them is responsible for framing up the long and short-term objectives and policies to achieve set goals, and for the actual running of day-to-day business. Therefore, once active owners now play rather passive role in the corporate management while the board of directors appointed by them run the whole show.

After the overthrow of the feudalistic Rana regime in 1951, all new governments have been putting maximum emphasis upon the growth and development of the national economy. For this, Nepal has adopted the "mixed economy model" with the view that both the public and private sectors would work harmoniously. Accordingly, large modern enterprises have been created in various sectors of the national economy.

It therefore seems that large organizations under the corporate structure will grow significantly in the coming decades and will continue to play a vital role in our development process.

The development and growth of corporate form of organization depends upon its ability to achieve its objectives of establishment, that is, earning a satisfactory rate of return on its investment. The achievement, however, depends upon the composition, working, attitude and behaviour of the Boards of Directors who are responsible for the actual result of given enterprises. It is also influenced by the evolutionary trend of the enterprises, and the government - enterprise relationship. With these broad objectives in mind the present dissertation has been written, and it basically deals with the general aspects of public enterprises including evolutionary trend, and the structure. From the foregoing analysis we have been able to arrive at the following conclusions :

1. The evolutionary trend of public enterprises in Nepal indicates that they emerged in the national socio-economic-political area in a hotch-potch manner without any perspective thinking whatsoever. It was just created to function as a handy remedial tool to solve the immediate troubles and problems encountered by the government.

2. The Second Plan accepted the public sector enterprises as one of the major sources for resources for the government by way of dividend. But this has not been fulfilled.

The Government received a sum of Rs.10.0 million as dividend profit during a period of three years beginning from 1972-73 to 1974-75. The maximum amount of dividend received in a single year was Rs.4.3 million in 1973-74 which was around 0.7 percent on a networth of Rs.621.7 million. However, the minimum percent of dividend was received in 1974-75, which was 0.3 percent on a networth of Rs. 979.3 million. Thus, the government has always received less than one percent on its aggregate networth. What this means is that the government has, not received a fair rate of dividend on its investment from public enterprises. From this, we can easily observe that public enterprises as a source of augmenting internal resources required for speeding the rate of our economic growth, as envisaged in the country's second plan, has not been achieved so far.

3. The government-enterprise relation is in a much confused and undefined state.

4. Functional autonomy to public enterprises is given only in words, not in action. As such, the public enterprises are becoming day by day a part of regular bureaucracy.

5. The functions of the Board of Directors and its responsibility has never been seriously defined by HMG.

6. The Board of Directors are independent of the success or failure of the enterprise. Their responsibility so far seems to have been limited to attending ritualistic meetings and receiving compensation for their time.

7. Most members of the Nepali Board of Directors are also top ranking members of Nepali bureaucracy and belong to various vested interest groups. 'They are closely associated with strong power centres in the political system. Thus, no matter how inefficient they may have been, they will hardly be held responsible for their action'.¹

8. Next, there is no stability of membership in a Board and the members frequently change. As a result, no particular chief executive could be held accountable for any mismanagement.

9. Finally, the hiring, promotion and firing of the chief executives have no relation with their job performance, and no criteria so far has been developed to evaluate their performance.

But there has not been any serious effort to analyse and study the structure of the board of directors who are responsible for the overall growth and development of the enterprises they are leading. So, to fill this gap, an in-depth study requires to be undertaken.

¹ Lohani, Prakash C., "The Royal Nepal Airlines Corporation", Weekly Mirror, Kathmandu, Vol.I, No.5, Aug.6, 1971.

Appendix Table 1

List of Public Enterprises in Nepal (As per our definition)

S.No.	Name of the Enterprise	Act of Incorporation	Date of Establishment	Main Business	Concerning Ministry	Foreign Assistance		Remarks
						Nature of Assistance	Donor country	
1	2	3	4	5	6	7	8	9
1.	Royal Nepal Airline Corporation (RNAC)	The RNAC Act	1950	Carrying out commercial aviation in and outside Nepal - the only flag carrier of the country	Works and Transport	-	-	An agreement in 1970 was reached between Air France and Royal Nepal Airlines Corporation for providing top management to it. However the association of the RNAC with Air France could not prove profitable. As a result honeymoon with Air France could not last long and ultimately in early 1971 divorce between the two took place.
2.	Nepal Industrial Development Corporation (NIDC)	NIDC Act	1959	Provides financial assistance to industries	Industry & Commerce	U.S. Loan and assistance since the very beginning	U.S.A., West Germany, Japan, Denmark, IDA (All credit)	Initially it was known as Industrial Development Centre in 1957.
3.	Raghupati Jute Mills Limited	Company Act	1960	Manufacture and export of jute and jute goods	"	-	-	Prior to 1960, it was solely in the private sector. Later in 1960, government also participated in its share capital by converting all its loans into shareholdings.
4.	Timber Corporation of Nepal (TCN)	"	"	Saw milling	Forest	U.S. Flood Relief and Technical	USAID	It was previously a saw mill under the Department of Forest to rehabilitate the dislocated people in Chitwan Valley during 1955/56 and later converted into Corporation in 1965.
5.	National Construction Company of Nepal (NCCN)	"	1961	To undertake all kinds of civil engineering works and construction projects on contract	Works and Transport	Financial & Technical	Solel Boneh Company of Israel	Since 1968 it has been fully owned and operated by BMO.
6.	Provident Fund Corporation (PFC)	PFC Act	1962	To manage provident fund deposits of all civil service and public sector employees. Also allocates some funds for investment in other enterprises on government guarantee	Finance	-	-	Its funds are mainly invested in government bonds.
7.	Ratna Recording Corporation (RRC)	Communication Corporation Act (CC Act)	"	Produces Nepalese song discs	Communication	-	-	In 1962 it was instituted in the form of "Trust" fund utilisation agency, but later in 1966 it was brought under the Corporation Act.

1	2	3	4	5	6	7	8	9
8.	National Trading Ltd. (NTL)	Company Act	1962	Regulating the demand and supply of essential commodities, handling of goods received under the and engaging in country's foreign trade	Industry & Commerce	Commodity aid to meet the local cost component of aided projects	USSR and the people's Republic of China	Involved in the P.Y. 1961/62.
9.	Nepal Electricity Corporation (NEC)	NEC Act	"	Generation and distribution of electricity	Water and Power	Techno-economic (Transfer of projects to NEC through Govt.)	People's Republic of China, India and USSR	Till the P.Y.1962/63, it was a departmental agency. The first hydro-power station in Nepal was started in the year 1911. Nepal hydro-power potentiality is estimated to be to the tune of 84 million kilowatts.
10.	Gorakhapatra Corporation	GC Act	1963	Running of dailies and other periodic publications	Communication	-	-	-
11.	Rastriya Banijya Bank (RBB)	Commercial Bank Act	1964	To provide commercial banking facilities in Nepal	Finance	-	-	Initially it was given a special status by enacting a special charter known as RBB Act. Now it is governed by the Commercial Bank Act of 1974.
12.	Birganj Sugar Factory (P) Ltd.	Company Act	1964	Production of white sugar and development of sugarcane farms in the country	Industry & Commerce	Techno-economic	USSR	Agreement signed in 1958.
13.	Transport Corporation of Nepal (TC/Nepal)	Corporation Act	1965	Running of railways, ropeway, buses, city bus, trolley bus, trucks and container trucks	Works and Transport	Hetauda-Kath Ropeway, Trolley Bus (Handed through HMG)	USAID, people's Republic of China and Yen Credit from Japan	Before its establishment it was a departmental affairs.
14.	Fuel Corporation	"	"	Procurement and distribution of fuel wood	Forest	-	-	-
15.	Janakpur Cigarette Factory (P) Limited	Company Act	"	Manufacture of cigarettes	Industry & Commerce	Techno-economic	USSR	Protocol signed in 1959.
16.	Banswari Leather and Shoe Factory Ltd. (BLSF)	"	"	Procurement of raw hides and skins and manufacture of leather and shoes	"	"	People's Republic of China	Involved from the P.Y.1962/63.
17.	Cottage Industry and Emporium	"	1966	Provides raw material and marketing services of local textile weavers and craftsmen	"	-	-	-

1	2	3	4	5	6	7	8	9
18.	Agricultural Inputs Corporation (AIC)	Corporation Act	1966	Purchases agricultural inputs and supplies them to farmers	Food, Agriculture and Irrigation	-	-	Initially in the year 1966 it was established by the name of Agriculture Supply Corporation (ASC). Later in 1972, Agriculture Marketing Corporation (AMC) was established after amalgamating the then ASC and Food Management Corporation (FMC). However, AMC was bifurcated into AIC and FMC in the year 1974.
19.	Nepal Tea Development Corporation Ltd. (NTDC)	Company Act	1967	Developing tea gardens and rendering technical assistance to private tea growers	Industry & Commerce	-	-	-
20.	Agricultural Development Bank (ADB/N)	ADB Act	1968	Provides finance for agricultural inputs and outputs and agro-based industries	Food, Agriculture & Irrigation	Loan (from Asian Development Bank from time to time)	ADB	ADB/N was established after acquiring the assets and liabilities of the then Co-operative Bank set up in 1963.
21.	National Insurance Corporation (NIC)	NIC Act	"	Providing all sorts of insurance services in the Kingdom of Nepal	Finance	-	-	-
22.	Agricultural Tools Factory Limited	Company Act	1969	To produce improved agricultural implements which could be used in the hills & plains	Industry & Commerce	Techno-economic	USSR	Since the F.Y. 1964/65.
23.	Dairy Development Corporation (DDC)	Corporation Act	"	Development & growth of dairy industry in the country	Food, Agriculture & Irrigation	Financial & Technical Loan	The Netherlands, New Zealand & Denmark	-
24.	Nepal Telecommunication Corporation	Communication Corporation Act (CC Act)	"	Monopoly supplier of telecommunication services	Communication	Loan	IDA	It was run as a departmental agency till 1969/70. Then it was constituted as a Board and finally, converted into Corporation in 1974/75.
25.	Brick & Tile Factory Ltd.	Company Act	1970	Producing bricks, tiles, flooring tiles, etc.	Industry & Commerce	Techno-economic	People's Republic of China	Protocol signed in 1964.
26.	Jute Development and Trading Corporation	Corporation Act	"	Provides facilities to develop improved varieties of jute cultivation and services for exporting the products in the international markets	"	Loan and Technical Assistance	ADB	Involved since 1970/71. Initially it was established as the Jute Development Board in 1970 under the Development Board Act and later in 1973/74 it was converted into the present name under the Corporation Act.

1	2	3	4	5	6	7	8	9
27.	Belaju Textiles Ltd.	Company Act	1971	Cotton Textile for local market and gives calendaring services to private textile weavers	Industry & Commerce	-	-	-
28.	Nepal Oil Corporation	"	"	Handling of Petroleum products in the country solely	"	-	-	-
29.	Nepal Transit & Warehousing (P) Ltd.	"	"	Providing facilities for safe transportation of goods and merchandise of foreign trade in transit via Indian route to Nepal from abroad and facilities for goods imported from a third country	"	-	-	-
30.	Royal Nepal Film Corporation (RNFC)	Communication Corporation Act	"	Produces documentary and feature films	Communication	-	-	-
31.	Cultural Corporation	"	1972	Presents Nepalese cultural shows	"	-	-	-
32.	Royal Drugs Ltd.	Company Act	"	Producing drugs with the indigenous and imported raw materials	Forest	-	-	-
33.	Agro-Lime Industry Ltd.	"	1974	Production of lime for agricultural and industrial purposes	Industry & Commerce	-	-	-
34.	Hetauda Textiles Industry Ltd.	"	"	Producing cotton textiles	"	Techno-economic	People's Republic of China	Protocol signed in 1974.
35.	Nepal Cheuri Ghee Ltd.	"	"	To process seasonal fruit (cheuri) into vegetable ghee	"	-	-	A very small unit.
36.	Nepal Food Corporation (NFC)	Corporation Act	"	To create buffer stock of food crops mainly rice and supply to food deficit areas	Food, Agriculture and Irrigation	-	-	Originally it was a Food Management Committee which was constituted in 1963/64. Later in 1972 it was merged with AMC. Again in 1974 it was given a separate identity by bifurcating the AMC.

1	2	3	4	5	6	7	8	9
37.	Janakpur Paddy & Rice Export Company	Company Act	1974	Purchasing paddy from farmers and export them to international market. There are a total of eight such companies each at seperate trading region - Janakpur, Lumbini, Sagarmatha, Narayani, Mechi, Kosi, Seti-Mahakali, Far Western Zone	Food, Agriculture and Irrigation	-	-	Presently they are mainly exported to India and then to Bangladesh and Mauritius.
38.	Lumbini	"	"	"	"			
39.	Sagarmatha	"	"	"	"			
40.	Narayani	"	"	"	"			
41.	Mechi	"	"	"	"			
42.	Kosi	"	"	"	"			
43.	Seti-Mahakali	"	"	"	"			
44.	Far Western Zonal	"	"	"	"			
45.	Eastern Electricity Corporation	NBC Act	1973	Generates and distributes electricity in Eastern Development Region	Water and Power	-	-	-

- Sources: (a) Performances of Public Enterprises in Nepal (CCC & ISC Study).
 (b) Economic and Management Study of Public Enterprises in Nepal (MCC Study).
 (c) Acts of Incorporation of some of the Enterprises.
 (d) Various Economic Plans of Nepal.

SELECT BIBLIOGRAPHY

- Administrative Reforms Commission, Public Sector Undertakings : Report of the Study Team, New Delhi, June 1967.
- Agrawal, Govinda R., Some Observations on Personnel Management in Public Sector Enterprises of Nepal, CEDA Occasional Paper, Kathmandu : Tribhuvan University, October 1977.
- All India Congress Committee, Congress Planning Sub-Committee, Report of the Ooty Seminar (May 30-June 5, 1959), New Delhi, 1959.
- Anthony, R.N., Management Accounting Principles, Bombay : Taraporevala Sons & Co., 1975.
- Appleby, P.H., Re-examination of India's Administrative System with special reference to Administration of Government's Industrial or Commercial Enterprises, New Delhi, 1956.
- Bryce, Murray D., Industrial Development : A Guide for Accelerating Economic Growth, Tokyo : Kōgakusha Co. Ltd.
- Burn, Duncan, The Structure of British Industry, Cambridge, 1958.
- Davies, Ernest, National Enterprise, London : Victor Gollancy Ltd., 1946.
- Deshpande, R.A., "Pricing Policy of Public Enterprises", The Indian Journal of Public Administration, (Jan.-March, 1962) New Delhi.
- Ginzberg, E., Hiest, Dale E. and Reabcuns, Breatice G., The Pluralistic Economy, McGraw Hill Book Co., 1965.

The Gorakhapatra, Nepali Vernacular Daily (Government owned),
April 14, 1979 (news item).

Hanson, A.H., Managerial Problems in Public Enterprises, Bombay :
Asia Publishing House, 1962.

(Ed.), Nationalization - A Book of Readings,
London : Allen & Unwin, 1963.

Parliament and Public Ownership, London : Cassell
& Co.Ltd., 1961.

Public Enterprise and Economic Development, London, 1959

(Ed.), Public Enterprise : A Study of its Organisation
and Management in Various Countries, Brussels :
International Institute of Administrative Sciences, 1955

HMG/IN, Ministry of Finance, Annual Budget for the Financial Year
1976-77, Kathmandu, 1976.

_____, Ministry of Finance, Report on Pay-scale and Fringe Benefits
of HMG owned Corporations, Kathmandu, 1973 (mimeo).

_____, Ministry of Industry and Commerce, New Industrial Policy,
Kathmandu, 1974.

_____, Ministry of Law and Justice, Law Book Management Committee,
The Constitution of Nepal (Amended), July 1976,
(Reprint), Kathmandu.

_____, National Planning Commission, Fifth Plan (1975-80),
Kathmandu, 1975 (in Nepali).

_____, National Planning Commission, Fourth Plan (1970-75),
Kathmandu, 1970.

HMG/N, National Planning Council, Second Plan (1962-65),

Kathmandu, 1962.

_____, National Planning Commission Secretariat, Basic Principles Of the Sixth (1980-85), Kathmandu, April 1979.

_____, Office of the Corporation Co-ordination Council,
The Profiles of Public Enterprises in Nepal,
Kathmandu, 1979.

_____, Office of the Corporation Co-ordination Council & Industrial Services Center, Micro Study of Public Enterprises in Nepal (Draft), Research Methodology, prepared for the Second Working Meeting of the "Performance of Public Enterprises in Asia Project", Kathmandu, April 18-24, 1976 (cyclostyled).

_____, Office of the C.C.C. & I.S.C., Performance of Public Enterprises in Nepal, Kathmandu, 1977.

Document of I.B.R.D./I.D.A., A Review of Major Issues Related to Nepal's Development Prospects (Report No.677-NEP), South Asia Department, 1975.

Khera, S.S., Government in Business, New York, 1963.

Kuchhal, S.C., Financial Management : An Analytical and Conceptual Approach, Allahabad : Chaitanya Pub.House, 1969.

Lewis, W.A., The Principles of Economic Planning, London, : Unwin University Books, 1965.

Little, I.M.D., A Critique of Welfare Economics (Second Edition), London : Oxford University Press, 1957.

- Lohani, P.C., Analysis of Industries in Birgunj-Hetauda Corridor, CEDA (Cyclostyled), 1970.
- _____, "The N.I.D.C.: A Review", Motherland, Kathmandu, September 4, 1979.
- _____, "The Royal Nepal Airlines Corporation", Weekly Mirror, Kathmandu, Vol.I, No.5, August 6, 1971.
- Marglin, Stephen A., "Pricing Policy for Public Enterprises", Development Digest, Vol.VI, No.3 (July, 1968).
- Okabe, Shiro, "Public Corporations in Japan", The Indian Journal of Public Administration, Vol.No.1, Jan.-March, 1955.
- Paranjape, H.K., "Measurement of Management in the Public Sector", The Indian Journal of Public Administration, Vol.VI (1960), New Delhi.
- _____, "Organisation of State Enterprises in India", The Indian Economic Journal, Vol.II, October (1954), Bombay
- Pathak, J.K., A Financial Study of N.I.D.C. : A Case Study (Submitted to the Tribhuvan University in partial fulfilment of the M.Com.Degree), Kathmandu, 1969 (Unpub.)
- _____, & Rajbhandari, O., Economic and Management Study of Public Enterprises in Nepal (under grants from International Development Research Centre, Ottawa, Canada), Kathmandu : Management Consultants & Co. (M.C.C.), 1974, (Unpublished).
- Prakash, Om, The Theory and Working of State Corporations with Special reference to India, London : George Allen & Unwin Ltd., 1960.

- Rajbhendari, O. & Pathak, J.K. (Ed.), "From the Editorial Desk",
Nepal Journal of Management Quarterly (NJM) No.6
 (October, 1974), Kathmandu : M.C.C.
- _____, "From the Editorial Desk", NJM Quarterly No.7
 (Dec. 1974), Kathmandu, : M.C.C.
- Ramanadham, V.V., The Control of Public Enterprises in India,
 Bombay : Asia Publishing House, 1964.
- _____, (ed.) The Efficacy of Public Enterprise : Proceedings
of the Second Seminar on Public Enterprise, 1962.
 Bombay : Allied Publishers Private Limited, 1963.
- _____, The Finances of Public Enterprises, Bombay, Asia
 Publishing House, 1963.
- _____, Problems Of Public Enterprise : Thoughts On British
Experience, Chicago : Quadrangle Books, 1959.
- _____, The Structure of Public Enterprise in India, Bombay :
 Asia Pub. House, 1961.
- _____, (ed.), The Working of The Public Sector, New Delhi :
 Allied Publishing Pvt. Ltd., 1965.
- Rana, P.S.J.B. & Malla, S.K., "The Board of Directors and the Chief
 Executive", Top Management Seminar, Kathmandu,
 CEDA, 1972.
- Rao, V.K.R.V., "Prices, Income, Wages and Profits in a Socialist
 Society", All India Congress Committee, Congress
 Planning Sub Committee, Ooty Seminar (May 30-June 5,
1959), Paper Discussed, New Delhi, 1959.

- Reed, P.W., The Economics of Public Enterprise, London :
Butterworths, 1973.
- Richman, Barry M., Soviet Management, Prentice Hall Inc., N.J., 1965.
- Robson, W.A., Nationalized Industry and Public Ownership,
London : George Allen & Unwin Ltd., 1960.
_____, (Ed.), Problems of Nationalised Industry, London, 1952.
- _____, Public Enterprise, London, 1937.
- Sachs, Ignacy, Pattern of Public Sector in Underdeveloped Countries,
Bombay : Asia Pub. House, 1964.
- Shamas, K., "Price and Profit Policy in Indian Public Enterprises",
A.I.C.C. Economic Review (March 22, 1961), New Delhi.
- Shrestha, J.B., "Role of Entrepreneurs and Managers in Nepal",
Top Management Seminar, Kathmandu : CEDA, 1973 (mimeo).
- Thomas, W.A., The Finance of British Industry 1918-1976, London :
Mathuen & Co. Ltd., 1978.
- Turvey, R., Economic Analysis and Public Enterprises, London :
George Allen & Unwin, 1971.
- U.N. & IIPA, Seminar on Management of Public Industrial Enterprises,
sponsored jointly by Government of India and the U.N.
New Delhi, 1959.
- U.N., Seminar on Organization and Administration of Public
Enterprises. (26th Sept. - 4th Oct. 1966), U.N.,
Geneva, Switzerland, 1966.
- _____, Organization and Administration of Public Enterprises
(Seminar Report), New York, 1967.

U.N., Technical Assistance Administration, Some Problems
On the Organization and Administration of Public
Enterprises in the Industrial Field, New York, 1954.

Verney, Douglas V., Public Enterprise in Sweden, Liverpool University
Press, 1959.

Webb, Michael G., "The Economics of Nationalized Industries,
A Theoretical Approach, London : Nelson, 1973.

Wildavsky, Aaron, "Why Planning Fails in Nepal", Administrative
Science Quarterly, December, 1972.