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Dividend Capacity of Public Enterprizes in Nepal

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HMG expects two things from the growth of public enterprises: Firstly, they should be in a position to pay minimum dividend on (HMG's) investment in equity capital. Secondly, HMG wants public enterprises to be self-supporing in financial matters in future years to come. But none of these two objectives of HMG seem to be accomplished by public enterprises as most of them are operating at losses in many instances.

The question now arises why public enterprises failed to accept dividend obligation on HMG's share investment. Do they mean that their losses are caused by excessive governmental interference in day-to-day affairs? Sir Eric Franklin on his enquiry of four major concerns, namely, Royal Nepal Airlines Corporation, National Trading Ltd., Nepal Electricity Corporation and Nepal Transport Corporation, found that there was excessive control on the part of government over those concerns. He stated thus: 'what I found that, although those government corporations had all the outward dignity and trappings of strong autonomous bodies responsible to the government only in respect of certain policy matters, there was little or no substance behind this facade, and the corporations enjoyed no more independence than the normal government departments'.[1] So it is the grievance of managers that failure to run corporations successfully is not their faults but the faults of excessive governmental interference. However, there is some truth in their grievances and it must be realized by HMG. Dividend expectations

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1 Sir Eric Franklin: Report On The Relationship Between HMG and Public Enterprise In Nepal, Tribhuwan University Library, DC. 338 7409n F854r 1966.

of HMG should be matched by autonomy expectations of managers. HMG should not impose influence and force while directing and issuing instructions to corporations. It is often the case in point that high ranking officials of HMG appointed as directors of board do nothing but simply show their bureaucratic personalities that offend the other board members and corporate executives. This has created psychological effect on management and corporate executives simply keep silent as they know nothing good is going to come from a given board meeting. Bureaucracy has been the enemy of efficiency and thus led corporations to face losses. Losing corporations are, therefore, not in a position to pay dividends to government on equity share investment.

But failure to pay dividend may not be only due to governmental iuterference alone. It can be the outcome of corporate inefficiency. Simply by pointing on the neck of government for the cause of their losses does not seem to hold true in all instances. The managers should have self-criticism and self-consciousness. They should ask themselves-Is their utter negligence attributable to the case of losses that made them unable to pay dividend to government? The quality of excutive leadership is a centrigal force needed to boost up corporate efficiency. Esman has pointed out that lack of favourable leadership is one of biggest constraints to institution building.[2] Moreover, corporate leadership could not come as managers are not ready to have self-criticisms. In fact, all so-called managers of corporations have not been able to identify themselves regarding what they can contribute as managers of corporations. They are found to bypass the responsibilites as to avoid decisions. They have the habit of asking always more from HMG and they never ask themselves what they as managers can help government to obtain dividends. So managers always consider government money as easy money that needs no repayment either in principal or in the form of dividend. Lack of change in attitudes of managers make them think that government money has no cost and so they never consider that dividend payment is their necessary and important financial obligation. Corporations are having major investments in shares subscribed by HMG and as yet financial obligations to pay minimum rate of dividend have not been imposed on them. According to the study made by Management Consultants and Co., it is found that HMG never received a dividend more than 1.07 percent on aggregate net worth.[3] HMG must be in a position to develop a financial target on corporate investments by imposing financial obligations on Corporations. Too much protection by way of subsidization

2 Milton J. Esman: The Institution Building Concept-An Interim Appraisal, Pittsburgh Inter-University Research Programme in Institution Building, 1967, PP. 44.

3 Economic And Management Study of Public Enterprises in Nepal, Management Consultants & Co. Kathmandu, 1974.

and free flow of easy money are evil; in themselves and this tendency, if continued, can dampen seriously not only corporate efficiency but also their financial viability.

During the course of the study of twenty major corporations, which have at least five year's existence, the average rate paid to the national treasury by way of dividend in this fiscal year 2030/31 is 0.6 percent on the share capital of Rs 40.43 crores and 1.0. percent on capital employed (share capital, loans and subsidy which amount to Rs 62.93 crores).[4]

Empirical Observation:

HMG has invested Rs 1,19,71,68,576 in shares of 72 public enterprises in 1976–77. It has been increased to Rs 1,32,01,49,251 in 1977–78. The amount of dividend paid represents Rs. 7,07,39,330 which is 5.35 percent of HMG's total investment in shares.[5] Out of 72 public enterprises, only 13 public enterprises paid dividend to HMG. But, if we are to exclude Nepal Rastra Bank from the definition of public enterprises, the dividend payment of 12 public enterprises records only Rs. 41,89,152. This comes to 0.34 percent of total HMG investment in shares of public enterprises. The rest 59 public enterprises have not been able to pay dividend to government. But government has made substantial amount of share investment in these public enterprises. Nepal Rastra Bank alone has paid Rs. 6,65,50,178 as dividend to HMG and it represents 665.5% of HMG's share investment of Rs. 1,00,00,000 in it. We now present the list of corporations on a sample basis to show both types of corporations which are/are not paying dividend to government. We have excluded corporations having no major investments:

The above eighteen selected corporations taken as sample from total 52 corporations show that Nepal Rastra Bank paid the highest dividend to government, which amount to Rs. 6,65,50.000 and it is 655.5 percent of share capital amounting to Rs. 1,00,00,000. The corporations paying least dividend to government are Timber Corporation of Nepal and National Insurance Corporation. Out of eighteen selected corporations, only eight corporations paid dividend while the other ten corporations did not pay any dividend to government.

Next to Nepal Rastra Bank, Nepal Bank Ltd. is the second semi-public corporation that provided dividend of Rs. 15,51,000 to government. The share capital investment of

4 Nandalal Joshi: The Role of Public Sector Corporations in Nepal, Prashashan, July, 1976, PP. 32.

5 Auditor's Report, Auditor General Office, 'Babar Mahal', Kathmandu, 2036 Part III PP. 86.

Corporations with HMG's Share Investment dividend Payment for the year 1977/78 (2034-35)

In 1000 Rupees

S/No.	Corporations	HMG's Shares	Dividend Paid or Not Paid	Dividend as % of Share Investment.	E.B.T
1.	Nepal Rastra Bank	10,000	66,550	655.5%	76,855
2.	Nepal Bank Ltd.	7,754	1,551	20.0	1,465
3.	National Commercial Bank	10,000	—	—	1,217
4.	Agricultural Development Bank	79,525	745	0.93	NA
5.	Nepal Tel. Com. Corporation	72,261	—	—	5,075
6.	National Ins. Corporation	1,800	195	10.83	NA
7.	Nepal Electricity Corporation	1,48,767	—	—	94,051
8.	Birgunj Sugar Factory	55,218	—	—	5,455
9.	National Trading Ltd.	2,500	750	30.00	4,281
10.	Janakpur Cigarette Factory	40,837	—	—	6,899
11.	National Constsuction Company	3,000	300	10.00	802
12.	Nepal Transport Corporation	59.780	—	—	5,757
13.	Eastern Electricity Corporation	22,615	—	—	1,126
14.	Royal Nepal Airlines Corporation	53,113	—	—	20,014
15.	Timber Corporation of Nepal	6,316	188	0.83	7,182
16.	Rice & Paddy Company	6,159	456	7.36	NA
17.	Bansbari Leather and Shoe Factory	20,152	—	—	507
18.	Nepal Industrial Development Corpor.	1,48,767	—	—	7,278

Source : Auditor's Report, 2036, (1978/79)

HMG represents Rs. 77,54,000 and dividend comes to 20 percent of share capital investment. So it is justified that HMG's share investment did not seem to be misdirected in this bank. It is, however, surprising that dividend paid exceeded EBT amounting to Rs. 14,65,000.

The Rastriya Banijya Bank did not pay any dividend to government inspite of having Rs. 1,00,00,000 share investment. It could have paid at least some amount of dividend as it has earned EBT of Rs. 12,17,000. If we follow the equity principle of justice, we find that HMG has imposed dividend obligation more than EBT to Nepal Bank Ltd. But, at the same time, such dividend payment obligation is not being imposed on Rastriya Banijya Bank. The partiality of HMG policy has already created serious set back on the profitability of Nepal Bank Ltd. If Nepal Bank Ltd. pays dividend of Rs. 15,51,000 on the profit of Rs. 14,65,000, the question comes why not Rastriya Banijya Bank to pay even 5 percent dividend out of the profit of Rs. 12,17,000. This clearly shows that government has not allowed banks to follow an independent dividend policy and HMG is found to pressurize dividend payment in case of Nepal Bank Ltd regardless of profit. But it has allowed Rastriya Banijya Bank to be relieved from dividend obligation inspite of knowing that it has profit.

Agricultural Development Bank is a promotional bank wherein HMG's share investment comes to Rs. 7,95,25,000. This bank paid a dividend of Rs. 7,45,000. In terms of percentage, HMG received 0.93 percent of paid up share capital as dividend. The payment of lower dividend by a promotional bank like Agricultural Development Bank is justified since it needs more funds to finance agricultural development.

Nepal Telecommunication Corporation has already obtained equity share of Rs. 7,22,61,000 from HMG. Inspite of having a profit of Rs. 50,75,000, it did not think it proper to pay a portion of profit for HMG to pay dividend as the Corporation itself is in need of more funds. But why they do not keep in mind that HMG needs some return from corporations to finance developmental needs

The same is true of Nepal Electricity Corporation. The government has already invested Rs. 14,87, 67,000 in this Corporation. But HMG has not received any dividend out of current profit. The Corporation earned profit of Rs. 94,07,000. This profit does not come to even one perecnt of HMG's share investment. But it is advisable for the Corporation to pay HMG some amount of dividend.

Birgunj Sugar Factory is a manufacturing concern that achieved a profit of Rs. 54, 55,000 on the HMG's equity investment of Rs. 5,52,18,000. The factory is able to pay dividend. But even then it did not pay to government.

It is, However, surprising that National Trading Ltd. provided dividend of Rs. 7, 50, 000 to HMG. HMG has invested only Rs. 25,00,000 in this trading concern while it is obtaining the highest amount of dividend. Dividend represents 30 percent of equity investment of HMG.

Janakpur Cigarette Factory has earned a profit of Rs. 68,99,000. HMG has invested Rs. 4.08,37,000 in the share capital of this factory. But it is surprising that the factory did not pay any dividend to HMG inspite of the fact that it is able to pay so.

National Construction Company of Nepal received equity capital investment of Rs. 30,00,000 from HMG. The amount has remained stable for a long period of time. But HMG imposed dividend obligation of Rs. 3,00,000 to this Company. In short, this Company paid 10 percent dividend on HMG's equity share capital. The profit of the factory is, however, only Rs. 8,02,000.

Nepal Transport Corporation has already swallowed most of the equity investments of HMG. This investment of HMG has recorded Rs. 5,97,80,000. Since the Corporation is running at losses to the extent of Rs. 57,57,000 in current year, it is unable to pay dividend for the time being.

Royal Nepal Airlines Corporation did not think it proper to pay dividend to HMG. HMG has already equity investment of Rs. 5,31,13,000 in this Corporation. Moreover, the Corporation reped a profit of Rs. 2,00,,14,000 in the current year. But still it hesitates to pay dividend to government. Manager argues that such profit should be first utilised to recoup past accumulated losses. However, common sense dictates that RNAC should follow a policy to pay dividend besides recouping losses gradually from each year's profit.

Eastern Electricity Corporation has already obtained HMG equity investment of Rs. 2,26,15.000. It earned a profit of Rs. 11,26,000. Payment of dividend is never thought of. The Manager of this Corporation argues that it is not in full swing growth. There is a lot of need for matching initial capital from accumulated profit.

HMG has invested Rs. 63,16,000 in equity capital of Timber Corporation of Nepal. This Corporation paid a dividend of Rs. 1,88,000 and it represents 0.83 percent of HMG's equity investment. The dividend paid on a profit of Rs. 71,82,000 is quite inadequate.

The eight Rice Paddy Companies, located in various places like Mechi, Kosi, Sagar Matha, Janakpur, Narayani, Lumbini, Far Western Regions, Seti Mahakali have acquired capital of Rs. 61,59,000 from HMG's equity investments. Out of eight Rice and Paddy Compan ies, only four of them namely Mechi, Koshi, Narayani and Lumbini were able to pay dividend of Rs. 4, 56,000. Paddy and Rice Company, Mechi, paid highest dividend of Rs. 2,35,000 and it is followed by Koshi and Narayani. But Lumbini paid negligible amount of dividend of Rs.1335. The other four companies became unable to pay dividend to HMG.

Bansbari Leather and Shoe shows improving record of profit of Rs. 5,07,000. HMG's equity investment comes to Rs. 2,01,52,000 in this factory. The factory manager has not thought of paying dividend to HMG as he argues that there is a lot of past accumulated losses to be recouped out of each year's profit.

Nepal Industrial Development Corporation is paying regular dividend to HMG. But this year, it has not paid dividend. HMG has contributed to the extent of Rs. 14,8767,000 in the equity capital of this Corporation. This has brought a lot of financial imbalances in HMG's revenue.

On the whole observation, it is found that HMG has no financial policy as yet in draining resources through the payment of dividend from Corporations. HMG uses adhoc policy in the payment of dividend. HMG has imposed dividend obligations in excess of current profit on some public corporations, as in case of Nedal Bank Ltd. HMG has compelled some public corporations to pay dividend immediately on minor profits earned. The case in point is National Construction Company of Nepal and National Trading Ltd. But HMG does not seem to impose dividend obligations on more corporations that are able to pay dividend out of current profit. Such corporations are Janakpur Cigarette Factory, Nepal Industrial Development Corperation, Nepal Electricity Corporation, Nepal Tele Communication Corporation and so on. The main finding of the analysis is that there exists no criterion to guide financial policy of HMG. Decision of HMG regarding imposition of dividend obligations is rather baseless and irrational.

Need of Criteria- uided policy.

HMG has to adopt a criteria-guided policy to drain resources from corporations through the medium of dividend payment. Dividend policy of Corporations must match with the overall financial policy of HMG. 'In the decade since Modigliani-Miller proclaimed that corporate dividend policy was a more detail in the context of their analysis, the air has been filled with debate on the importance of dividends'.[6] HMG has to recognize importance of dividend payment by making corporate managers conscious to pay dividend on equity investment made by it. Moreover, corporate manager must bear in mind that equity capital has a cost and that cost consitutes dividend obligation to be paid to HMG. If HMG wants to tap resources through dividend, following criteria should be followed:--

1. Proper evaluation of public enterprises to form an idea about number of these enterprises capable of paying dividend as against those which could not pay due to unfavourable financial reasons. This could have been done through the held of corporation coordination council which does not exist.

2. Imposition of fixed rate of dividend as percentage of HMG's equity investments on those public enterprises that are found to be financially sound from the above evaluation. The fixed rate of dividend is the desirable rate of dividend for corporations.

3. Circulating the informations to all public enterprises about the Minimum Rate of Dividend which they have to pay on HMG's equity investments. This may not be applicable in case of those public enterprises which HMG has specifically considered them to be of greater social and national importance and such enterprises run at losses due to undertaking of uneconomical operations. "In fact the financial obligations of Nationalized Industries are not simply deduced from social and economic obligations. Inspite of being criticized for long, at last government decided that financial objectives for the nationalized industries did have some value in their own right, even though economically justified investment and pricing policies might have been prescribed already".[7] This implies that HMG has to resort to strong discipline of imposing financial obligations to corporations although it should pay attention to public enterprises having more of social and economic obligations.

4. Specifying performance criteria like profit target in terms of emphasis, priorities timing and plans so that HMG can decide actually how much dividend corporations would be

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6 F. Modigliani and M.H. Miller "The Cost of Capital. Corporation Finance and Theory of Investment" American Economic Review, Vol XV VIII No. 3 June 1968 PP 226.
Note: Public Enterprises are synomous with Public Corporations or Corporations.

7 David Coombes "State Fnterprise: Business or Politics" George Allen & Unwin Ltd, Ruskin House, Musuem Street, London, August 1970 PP. 59

able to pay if a given profit target is achieved. This calls for readiness on the part of HMG to develop a strategic planning. "Strategic planning is not just a statement of corporation's aspiration. It includes what must be done to bring those aspirations to reality. The corporation's view point must remain sufficiently flexible for a new plan to be substituted for the old whenever conditions change or new information allows a more accurate analysis of the situation."[8] But HMG must have the desired future performance specification through explicit statement of the planned allocation of resources to corporations in expecting a fixed rate of dividend.

5. Identification of objectives in corporation Act, Company Act or Special Charter is necessary so as to clearify public enterprizes managers regarding their financial obligations to pay dividend to MHG. It is important that HMG should provide understandable directives to corporations regarding their operations in business like manner. The term 'Business like Manner' implies that the corporations need profit to survive and also to accomplish dividend obligations imposed by HMG. It is a recognized fact that HMG should not violate commercial guidelines once committed to corporations by imposing them again to follow straight social approach. "Public enterprizes should be instructed to behave commercially in all matters except for acknowledged special cases which would be isolated for direct subsidies provided there exists satisfactory method for selecting special cases and rational subsidies be accepted genuienly".[9]

The conclusion follows that public enterprises have no dividend policy at all. This lacking is attributable to failure of HMG to guide public enterprizes in following a suitable dividend policy. The managers of public enterprizes argue that governmental interference has been faulty and this is the one single reason for huge corporate losses that made them unable to pay dividend. But corporate managers too have their weaknesses that cause to corporate losses. They lack the habit of self-criticism. The empirical study shows that dividend payment has been hazardous as corporations with good record of profit escape from responsibility of dividend payment. But corporations having critical financial position are often imposed with more dividend obligations than actually their profits allow. The effectiveness of dividend policy of public enterprizes so as to make better flow of resources to HMG's treasury requires readiness on the part of HMG to follow criteria-guided financial policy. Such a criteria-guided dividend policy depends upon how realistic HMG becomes in making proper evaluation of public enterprizes, imposition of fixed rate of dividend, specification of performance criteria in terms of profit target, identification of objectives in Corporate Act, etc.

8 Robert L. Katz "Management of the Total Enterprize" Prentice—Hall Inc. New Jersey, 1970 PP 236.

9 William G. Stepherd "Economic Performance Under Public Ownership" New Haven, London, 1965 PP. 144