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A Note on Performance of Public Enterprises in Nepal

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Public Enterprises (PEs) have been universally established in most developed countries like the USA, Britain and France, as well as in developing countries like India, Nepal and Sri Lanka, among others. Indeed public enterprises have become an important and seemingly indispensable element of modernization process particularly for the developing countries.

Since the nineteenth and early twentieth century, the growth of PEs has indicated a significant change in economic and social thinking among governments. The concept of public enterprises was born out of two situations: 1) lack of private investment capital, and 2) lack of skill and professional maturity among private entrepreneurs. Thus government policy makers have adopted the establishment of public enterprises as an instrument for socio-economic development.

In Nepal, public enterprises have been initiated as early as during the First Plan period (1956-61). To date, PEs have been dominantly established in all spheres of Nepal's economic activities - manufacturing, utility, trading, transport, insurance and cultural services. The role of PEs has become increasingly important especially in terms of fulfilling the basic needs, developing the infrastructure, and providing financial support for the establishment of individual enterprises of the country. The growth of PEs in successive plan periods is as follows:

Table 1
Public Enterprises-Different Plan Periods

Plan Period		Total Number	Change
Prior to	1956	1	-
First Plan	(1956-61)	8	7
No Plan Period	(1961-62)	11	3
Second Plan	(1962-65)	22	11
Third Plan	(1965-70)	34	12
Fourth Plan	(1970-75)	59	25
Fifth Plan	(1975-80)	59	0
Sixth Plan	(1980-85)	53	-6
Seventh Plan	(1985-90)	59	6

Source: National Planning Commission, HMG/Nepal.

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The contribution of PEs to national development becomes even more pronounced considering the employment opportunities it can generate. To date, more than 58,000 people are employed in these PEs.

His Majesty's Government has invested over Rs. 3003 million in the share capital by the end of FY 1988/89. In addition to the share capital investment, HMG has extended to PEs government guarantee loans plus interest amounting to over Rs. 1373 million by the end of fiscal year 1988/89. The outstanding foreign loan amounted to Rs. 5821 million by the end of fiscal year 1987/88. The total government contribution to PEs in the forms of shares and loans amounted to Rs. 10197 million.

In FY 1989/90, the HMG budgetary allocation to PEs totalled to Rs. 545.2 millions. This is 4 percent of the total development budget.

The subsidy to PEs both by HMG and by foreign assistance has substantially increased. In the fiscal year 1987/88, the capital subsidy increased by 764 percent. Transport subsidy and price subsidy also increased substantially.

While substantial support has been given to the PEs, their overall performance has not been up to the desired level. Their contribution in the form of dividend to HMG, except Nepal Rastra Bank, is insignificant, with negative per share earning. Moreover, the accumulative loss in the National Food Corporation (NFC) and the Agricultural Inputs Corporation (AIC) are more alarming. The same pattern is observed in the manufacturing sector with the Hetauda Cement Limited (HCL) facing loss every year. Consequently almost more than half of the equity share has been eaten up.

An analysis of the financial performance of PEs in the fiscal year 1987/88 shows that the return on investment has been not only negative, but, in fact, also declining every year.

There has also been unsatisfactory capacity utilization among most of the manufacturing PEs. The average capacity utilization is approximately 66 percent. Even the major PEs like the Janakpur Cigarette Factory and the Hetauda Cement Factory are running under low capacity.

Hence, in spite of the huge investment in the PEs, they have not been able to generate adequate returns. Some of them even continue to be burden in the government treasury.

Poor performance of the PEs can be attributed to inefficiencies and low profitability, specifically as follows:

(1) Inadequate and inconsistent indices and ambiguous government policies relating to PEs.

(2) Lack of managerial skills.

(3) Excessive interference by the administrative ministry.

(4) Lack of adequate incentives to stimulate higher performance and productivity.

(5) Ineffective monitoring and evaluation of performance.

(6) Ineffective capitalization and working capital.

(7) Stifled entrepreneurship arising from excessive governmental regulations or controls as well as "perfectionism" in the form of subsidies, government guarantees for loans.

While PEs still hold significant role in the overall national development, its poor performance on the other hand, is a matter of serious concern.

HMG's already scarce resources are still to be sliced into the various important infrastructures, social services and other nationally important areas. Hence before giving further investments to PEs, steps should be taken first to streamline their performance, coupled with sound management and national pricing policy based on sound business principles. To this end, HMG has taken a number of measures to improve management and to bring desired degree of efficiency towards high productivity. These include the following:

(1) Setting of annual targets for PEs based on their capacity and management commitment as a basis for top executive performance evaluations.

(2) Defining job descriptions of PEs' personnel management that will be the basis for hiring.

(3) Delegating adequate authority to the Board of Directors to make pricing decisions according to the prevailing market situation. For this, PEs are classified under three divisions:

- PEs operating under highly competitive situations.
- PEs operating under monopoly.
- PEs operating under HMG subsidy.

In the first category, PEs have to decide their prices according to the demand and supply of the goods in the highly competitive markets.

In the second and third categories, the price of the commodity or service should be fixed on break-even point.

(4) PEs are given full authority to reinvest their profit into priority sector.

(5) Diverting HMG share in the PEs to the private sector.

(6) Reward and punishment system has been introduced. Those Chief Executives whose performance are less than 75 percent are to be re-

moved or transferred, those whose performance is above 75 percent are to be reviewed and those above 85 percent are to be retained. On the other hand, those whose performance are more than 100 percent of their target are to be rewarded 15 percent of extra profit generated or Rs. 100,000 whichever is lower.

The generally negative performance of PEs points to a re-examination of the government involvement in these enterprises. It should be well considered that even those PEs that are economically viable and have a great potentiality are running on less due to mismanagement of the originally invested resources. It may be high time to think that the government needs some support to undertake the task of massive capital restructuring. It is at this juncture where the private sector can be significant partner to the government's efforts of economic restructuring as the private entrepreneurs are usually ahead in gaining modern managerial skills and capability required for the efficient operations and management of the PEs. Some of the reasons for collaboration are as follows:

(a) To bring participation of the private sector into government PEs in order to mobilize their surplus saving in the productive sector.

(b) To gradually transfer some of the PEs ownership to the private sector.

(c) To achieve the desired efficiency with the help of private participation.

(d) To bring commercial aspect in the management of PEs.

(e) For many statutory PEs the original objectives behind their creation do no longer exist. The economic environment has changed. Some PEs created to meet public policy goals are no longer legitimate.

(f) There are abundant evidence that many PEs are not as effective as the private sector. The privatization of PEs can improve efficiency and effective.

(g) Management styles of most of the PEs afterwards were found to be slow in decision making and unwillingness to take risks. In the commercial meaning adaptability to rapid changes in markets and technologies is essential.

Finally, improvement of the performance of PEs is the need of time. Privatization of PEs and simply making certain decisions to bring improvement have not served and will not serve the purpose. It needs political commitment as well as non interference in the PEs management. Appointment of PEs Chief Executive should be reviewed and should be appointed on the merit. Regularization of economic activities as well as creating economic environment for PEs and private sector to run their services efficiently are essential in the present context.

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ANNEX - 1
Performance of Public Enterprises

Rs. in Million

	Capital Employed							
	1970/71	1980/81	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Manufacturing	13.00	18.00	23.00	40.00	27.00	55.00	-95.00	-17.00
Public Utilities and Others	-2.00	25.00	174.00	92.00	98.00	-4.00	78.00	6.00
Trade	19.00	264.00	-13.00	105.00	59.00	145.00	-79.00	1145.00
Total (non-financial)	3.00	219.00	57.00	15.00	56.00	195.00	-97.00	255.00
Financial	.70	83.00	89.00	11.00	39.00	159.00	155.00	-8.00
Total (All Sectors)	37.00	-156.00	-155.00	149.00	105.00	355.00	59.00	-335.00

	Gross Profits							
	1970/71	1980/81	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Manufacturing	151.00	635.00	654.00	771.00	753.00	1408.00	2433.00	1396.00
Public Utilities and Others	242.00	1074.00	1625.00	3357.00	4676.00	5353.00	4055.00	5499.00
Trade	29.00	-31.00	-275.00	-13.00	-244.00	1001.00	-205.00	-480.00
Total (non-financial)	422.00	140.00	2035.00	4115.00	5195.00	7802.00	6295.00	7415.00
Financial	215.00	1957.00	3409.00	1665.00	2204.00	2315.00	7233.00	8326.00
Total (All Sectors)	367.00	3327.00	5445.00	578.00	7399.00	10112.00	13228.00	15731.00

	Gross profits as percentage of capital employed							
	1970/71	1980/81	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Manufacturing	8.50	3.00	34.00	52.00	3.50	39.00	-39.00	-709.00
Public Utilities and Others	-.30	24.00	107.00	-27.00	21.00	-1.00	181.00	101.00
Trade	855.00	-	-	-	-	14.00	-	-
Total (non-financial)	71.00	-156.00	33.00	-39.00	13.00	25.00	-15.00	-34.00
Financial	33.00	33.00	26.00	.70	15.00	65.00	215.00	-96.00
Total (All Sectors)	58.00	-47.00	29.00	-26.00	14.00	35.00	65.00	-436.00

Source: Economic Survey 1988/89.

ANNEX - 2

Capacity Utilization of Selected Public Enterprises

Name of the Industries	Annual Production Capacity	In Percentage								
		1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89*
Bansbari Leather and Shoes Factory	Shoes 150000 Pairs	98.76	86.30	88.40	74.08	78.00	90.92	76.00	68.00	75.33
	Processed Leather 18,00,1000 sq.ft.	96.85	84.93	84.77	107.85	90.00	69.15	73.00	105.83	103.89
	Semi-Processed Leather 9,00,000 sq.ft.	-	75.74	91.34	62.64	52.87	81.75	78.78	81.89	75.00
Birgunj Sugar Factory	Sugar 13,500 M. Ton	44.89	94.95	106.11	87.96	55.26	70.19	102.04	98.68	88.98
Birgunj Distillery	Rectified Spirit 13,50,000 Lit.	-	18.81	19.25	27.32	82.51	60.43	56.44	87.02	68.89
Janakpur Cigarette Factory	Cigarette 5.25 Billion Sticks	39.00	58.00	68.00	78.00	92.00	89.50	100.00	98.29	72.38
Brick & Tile Factory Harisiddhi	Brick 25 Million	49.20	56.00	76.00	67.20	60.00	64.12	80.00	67.79	68.00
Bhaktapur Brick Factory	Brick 20 Million	50.50	61.50	89.50	75.00	74.00	68.50	71.00	65.50	75.00
Hetauda Textile Industry	Cloth 110 Lac. Metres	28.75	42.73	48.34	52.07	54.00	62.24	69.06	59.07	54.55
Himal Cement Company	Cement 128400 M. Ton	70.71	70.77	77.00	79.68	66.00	64.60	34.84	44.50	34.27
Agriculture Tools Factory	Tools 450 MT	19.11	34.00	81.78	110.00	99.00	90.00	83.33	90.00	87.50
Agro-Lime Industry	Agro-Lime 6000 M. Ton	-	6.22	8.69	9.00	19.83	8.72	4.34	833	-
	Chemical Lime 6000 M. Ton	50.00	90.00	116.67	116.67	116.67	203.33	353.33	538.33	-
Hetauda Cement Factory	Cement M. Ton 231750	-	-	-	-	-	48.00	52.00	60.85	61.99
Bhrikuti Paper Factory	3,000 M. Ton	-	-	-	-	-	-	49.73	81.13	90.00

*Estimate.

Source: Economic Survey 1988/89.

ANNEX - 3

Flow of Fund Between HMG and Public Enterprises

Rs. in Million

Particular	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
A. Fund from HMG to PEs	1756.00	1996.00	5921.00	9639.00	10081.00	7464.00	16752.00	7810.00	12355.00
Share Capital	663.00	648.00	2038.00	2903.00	2056.00	1737.00	4521.00	3230.00	1528.00
Loan Capital	971.00	936.00	1719.00	5143.00	7053.00	4718.00	9940.00	2960.00	3747.00
Operating/Transport Subsidy	86.00	127.00	854.00	1433.00	663.00	809.00	40.00	910.00	905.00
Capital Subsidy	36.00	285.00	310.00	100.00	310.00	20.00	1891.00	710.00	6175.00
B. Fund from PEs to HMG	3626.00	4978.00	4848.00	600.00	5791.00	8596.00	11371.00	15280.00	17963.00
Indirect Taxes	3228.00	4213.00	4007.00	4839.00	4533.00	6418.00	7682.00	9990.00	10809.00
Income Tax	120.00	460.00	476.00	608.00	662.00	1017.00	1225.00	1220.00	1982.00
Dividend	43.00	28.00	90.00	94.00	104.00	119.00	105.00	1080.00	1172.00
Interest	92.00	117.00	162.00	122.00	329.00	332.00	1705.00	1480.00	2232.00
Principal	143.00	160.00	114.00	337.00	163.00	710.00	654.00	1510.00	1768.00
Net Fund from HMG to PEs	-1870.00	-2982.00	1072.00	3639.00	4290.00	-1132.00	5381.00	-7468.00	-5608.00

Source: Economic Survey 1988/89.

Annex 4
Name of the Enterprises

Agrolime Industry Ltd.
Agricultural Tools Factory Ltd.
Birgunj Sugar Factory
Bansbari Leather and Shoes Factory Ltd.
Bhaktapur Bricks Factory Ltd.
Brick and Tile Factory Ltd., Harisiddhi
Dairy Development Corporation
Hetauda Textile Industry Ltd.
Herbs Production and Processing Co. Ltd.
Janakpur Cigarette Factory
Nepal Tea Development Corporation Ltd.
Raghupati Jute Mills
Royal Drugs Ltd.
Himal Cement Company Ltd.
Nepal Oriend Magnesite (P.) Ltd.
Bhrikuti Paper Industry Ltd.
Hetauda Cement Industry Ltd.
Hetauda Cement Industry Ltd.
Balaju Textile Industry Ltd.
Butwal Spinning Industry Ltd.
Nepal Metal Company
Balaju Yentra Shala, Sanitory Engineering Ltd.
Lumbini Sugar Factory Ltd.
Nepal Rosin and Turpentine Ltd.
Nepal Paper Industry
Seti Cigarette Factory Ltd.
Udayapur Cement Industry
Gorkhakali Rubber Industry
Nepal Bitumin and Barrel Industry
Nepal Lube Oil Ltd.

Agriculture Inputs Corporation
Cottage and Handicrafts Emporium Ltd.
Nepal Food Corporation
National Trading Ltd.
Nepal Oil Corporation
Tobacco Development Co. Ltd.
Fuel Corporation
The Timber Corporation of Nepal
Nepal Coal Company

Nepal Telecommunication Corporation
Nepal Transit and Warehousing Co. Ltd.
National Construction Company of Nepal
Royal Nepal Airlines Corporation
Nepal Transportation Corporation
Nepal Electricity Authority
Drinking Water and Sewerage Corporation

Gorkhapatra Corporation
Nepal Television
Ratna Recording Corporation

Royal Nepal Film Corporation
Cultural Corporation
Janak Education Materials Centre Ltd.
Nepal Resettlement Company
Economic Services Centre Ltd.
Industrial District Management Ltd.

Agricultural Development Bank
Nepal Industrial Development Corporation
Rastriya Banijya Bank
National Insurance Corporation
Securities Exchange Centre Ltd.
Credit Gaurantee Corporation (P.) Ltd.
Nepal Bank Ltd.
Employees Provident Fund

Balaju Yantra Shala Sanitory Engineering Ltd.
The Hides and Skins Corporation
Surkhet Prime Movers Company
Melauli Kapada Bunai Kendra Ltd.

BOOK REVIEW

Poudyal, Sri Ram (1988): Foreign Trade, Aid and Development in Nepal, (New Delhi: Commonwealth Publishers), pp. 254, Price NRs. 336 (200 Indian Rupees).

Today every nation of the world is concerned about high economic growth rate and development. The foreign trade sector, along with other sectors of the economy, has been accepted to be of high significance in connection with the pattern and pace of development particularly for least developed countries. The success of export-led growth strategy in the newly industrialised countries (NICs) on one hand and the insolvency of many developing countries on the other during 1980s have once again increased the significance of foreign trade and aid as engines of growth. Thus, it is worthwhile to consider the extent to which development can be promoted through trade and aid.

The book under review is the author's Ph.D. research undertaken at the Delhi School of Economics, India. The focus of the book is to analyse the determinants and behaviour of macro-economic variables and focus on the development of macro-model to estimate savings and trade gap in Nepal. The whole discussion is centered around the relation between aid, trade and development.

The book is organised into ten chapters. The first chapter provides an overview of Nepalese economy. The second chapter is on the relationship between investment and output and estimates of capital-output ratio. Chapter three is developed to an analysis of saving. Chapters four and five are concerned with the structure of foreign trade of Nepal and implications of trade diversification policies respectively. The sixth chapter focuses on detailed analysis of export along with production and trade aspects of rice and raw jute. The seventh chapter is fully devoted to estimate of import function for major categories of imports. Chapter eight is concerned with the impact of foreign aid on growth and saving. The ninth chapter concentrates on two-gap model and finally the last chapter contains concluding observations.

The book is to be considered a very useful work in the sense that a detailed analysis and interpretation of major macro-economic variables along with the estimation of two-gap model are made for Nepalese economy for the first time. The estimation of capital-output ratio, marginal propensity to save, marginal propensity to consume, investment multiplier and export and import elasticities are to be considered significant contributions for all these parameters are not precisely estimated even by the National Planning Commission though seven five year plans are already implemented. The analysis of foreign trade structure and analysis of the reasons for large and persistent deficit in the current account have presented the actual picture of the trade scenario. The uses of econometric tools have made the book lucid and comprehensive.

The readers can very well identify that the theme of the book is the role of trade and aid in the process of development. Further, the book makes an exposure that Nepalese economy is facing stagnation. Agricultural export does not meet the exports required for agriculture import.

Trade is not yet so significant to become a strategic factor for development. It has not yet been an engine for growth. Though the author has observed the absorption of foreign aid adversely affecting Nepal's savings efforts, he is skeptical about the ever increasing dependence of Nepal which in the long run may pose serious consequences.

The author should be congratulated for estimating the structural parameters and two-gap model for Nepalese economy. The book would have been rated differently had the author analysed the input-output table and effective exchange rate while analysing export and import functions, and it would provide basis for more comprehensive macro-models. This is a book which should be read by the students of international economics, planners as well as policy makers in order to understand links among different macro variables.

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