



## A Short Glance on Public Enterprises in Nepal

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### Abstract

*This article deals with Public Enterprises, types, performances, and its reflections on the Nepalese context. Public Enterprises are entities with specific objectives involving government ownership and control through public authority. PEs have been established in Nepal for economic and balanced development through performing specific business functions. This article claims that the number of PEs grew from the period of Nepal's first five-year plan, which was reduced after adopting liberalization and privatization policy in the era of multiparty democracy. The main objective of this article is to trace out the scenarios of Public Enterprises, its challenges and their opportunities. It has applied the review-based analysis as a methodological part. Most PEs are running under huge losses, very few have operating excellent performances and public notice. The major challenges for PEs in Nepal are heavy political interference, government and remuneration policy, lack of transparency and accountability, low commercial expertise, and nepotism with bureaucratic organizational structure. The PEs are a tool for implementing government policy as well as an agent for market control and competition in a positive aspect. Improvement in the fundamentals of PEs is necessary for them to sustain in a competitive market and be serviceable to society. Efficiency-based remuneration and recognition motivate the individual to take risks and contribute to the national economy.*

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**Keywords:** *Accountability, Autonomy, Credibility, Public-welfare, Transparency*

### Background of The Study

A public enterprise is a business organization partly or wholly owned by the state and controlled by public authority. (Encyclopaedia Britannica, n.d.). State-owned organizations are financially autonomous, legally distinct enterprises wholly or partially owned by the government (World Bank, 1988). Public enterprises are state ownership and operation of industrial agriculture and financial and commercial undertakings. There is no special capacity for institutional invention in the form of public corporations, mostly copied from the West. Less developed countries could not represent public corporations as the alternative to private enterprise (Henson, 1961).

A Public Enterprise is examined as an artificial person permitted by law to carry on performances and functions. It is spread in all nations of the world for social and economic development but due to ineffective public service, it is not contributing to national development (Ogohi, Analysis of the

Performance of Public Enterprises in Nigeria, 2014). Public Enterprises are the major vehicle for the economic development of the countries. In developing countries, it holds the responsibility of infrastructure management and development of the countries with the share of national product aiming to service facilities to the public. According to the nature of the economy, it is initiated by the government as well as public ownership (Powell, 1987). Public enterprises are formed in Nepal to improve the socio-economic conditions of the country and as a vehicle of development. Up to the end of the 7th plan (1985-90), 63 public enterprises were established out of which after the restoration of democracy, and liberalization policy formulated in 1992, a half dozen public enterprises were privatized (K.C., 2003).

As government-owned, managed and controlled firms, public enterprises are often used as policy tools of the government. These organizations were established in Nepal to achieve national economic, social, and political goals (Ministry of Finance, 2011). Nepal Bank Act 1994 BS paved the way for the formation of Nepal Bank Ltd., one of Nepal's first public enterprises. As expanding the scope of public administration, public enterprises came into existence. The government is involved in a special type of business operation, in the name of public enterprises. It holds a special identity in the business world, provides public utilities in various sectors, and sells goods and services to the public through the means of state-owned enterprises. PEs in Nepal, by and large, have been established mainly to facilitate the public in providing infrastructural facilities and services, basic consumer and development goods, adequate supplies of required goods, managerial backing to needy enterprises, and entrepreneurial care to those enterprises (Shrestha, 1990).

In the context of Nepal, Lack of clarity in the policy has long been delaying the government's plan to privatize the crisis-ridden enterprises, raising the financial liabilities to the government. Of the 30 public enterprises privatized since 1990, only 11 continue to be in function only 5 with profits. (Kathmandu Post, 2019) Therefore, public enterprises are an important aspect of the economy of the socialist-oriented country as envisaged in the Constitution of Nepal 2072 BS. The performance of public enterprises contributes to a great extent to the economy if it contributes to public services.

### **Objectives and Methodology**

The objective of this study is to review and analyze the situation of Public enterprises in Nepal during the first five-year plan to the Ninth plan (1956- 2002). It aims at features, sector relating and trends about its performances and outcome. Secondary sources of data have been collected, edited, and managed to justify the topic. This article is based on a review-based analysis. It will be a milestone for those knowledge seekers who are interested in the related field in the Nepalese context.

### **General Overview and Discussion**

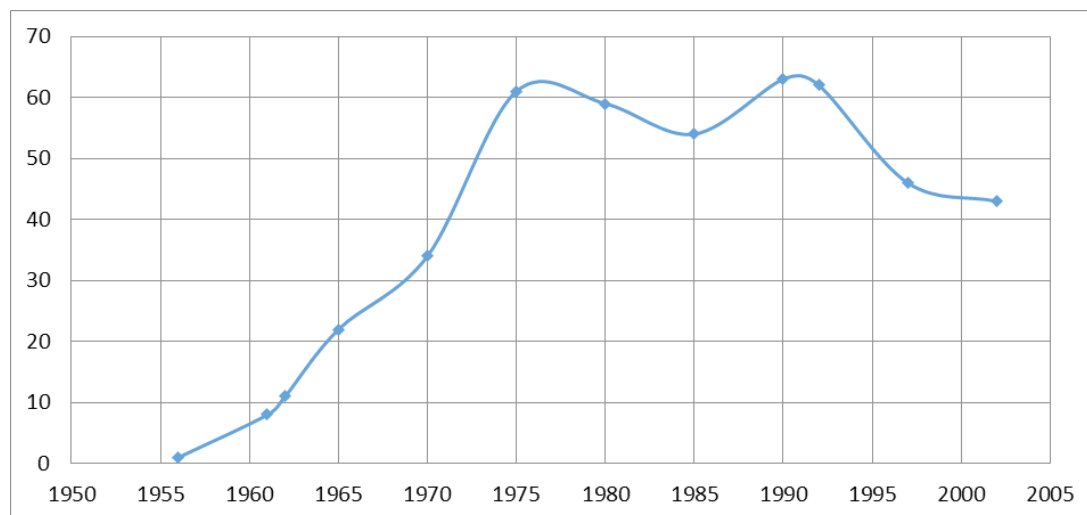
The growth of public enterprises was initiated with the first plan of Nepal (1956,- 1961) prior to which only a single public enterprise existed. The number of PEs fluctuated in various periods and has fallen since the adoption of the Privatization and Liberalization Policy after the restoration of multiparty democracy in 1990.

**Table 1:** Total Number of Public Enterprises in Nepal During Various Periods

Periodic Plan	Start Year	End Year	Total No.s	Change	Remarks
Prior to		1956	1	-	
First Plan	1956	1961	8	7	
No Plan Period	1961	1962	11	3	
Second Plan	1962	1965	22	11	
Third Plan	1965	1970	34	12	
Fourth Plan	1970	1975	61	27	
Fifth Plan	1975	1980	59	-2	
Sixth Plan	1980	1985	54	-5	
Seventh Plan	1985	1990	63	9	
No Plan Period	1990	1992	62	-1	
Eighth Plan	1992	1997	46	-16	
Ninth Plan	1997	2002	43	-3	

**Source:** National Planning Commission & Ministry of Finance; Various Publications

The rise and fall in number of public enterprises through time can be well elaborated in the graph below:

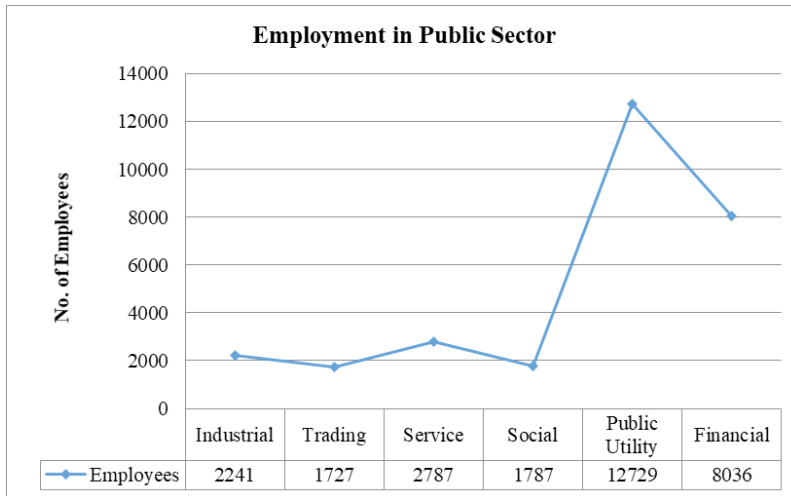
**Figure 1:** Number of public enterprises in Nepal in Chronological order

The public Enterprises in Nepal can be broadly classified into the following categories:

Sector	Name	Employees
Industrial	<ul style="list-style-type: none"> <li>• Dairy Development Corporation,</li> <li>• Herbs Production and Processing Co. Ltd,</li> <li>• Hetaunda Cement Udyog Ltd.,</li> <li>• Nepal Drugs Ltd.,</li> <li>• Udayapur Cement Udyog Ltd.,</li> <li>• Nepal orient Magnesite Ltd</li> </ul>	2241
Trading	<ul style="list-style-type: none"> <li>• Agriculture Product Company Ltd.</li> <li>• National Seeds Company Ltd,</li> <li>• Nepal Food Corporation,</li> <li>• Nepal Oil Corporation</li> </ul>	1727
Service	<ul style="list-style-type: none"> <li>• Nepal Civil Aviation Authority,</li> <li>• Nepal Airlines Corporation.</li> <li>• Industrial Management Ltd.</li> <li>• Nepal Transportation and Godown Management Co. Ltd.</li> <li>• National Productivity and Economic Development Centre Ltd.,</li> <li>• Nepal Engineering Consultancy Service Centre Ltd</li> </ul>	2787
Social	<ul style="list-style-type: none"> <li>• Sanskritik Sansthan,</li> <li>• Gorkhapatra Sansthan,</li> <li>• Janakshiksyas Shasamagri kendra Ltd</li> <li>• Nepal television,</li> <li>• National Habitat Company Ltd</li> </ul>	1787
P u b l i c Utility	<ul style="list-style-type: none"> <li>• Nepal Telecom,</li> <li>• Nepal Electricity Authority,</li> <li>• Nepal water supply Sansthan</li> </ul>	12729
Financial	<ul style="list-style-type: none"> <li>• Agriculture Development Bank,</li> <li>• Beema Sansthan,</li> <li>• NIDC Development Bank,</li> <li>• Rastriya Banijya Bank</li> <li>• Deposit and Loan Security Investment fund,</li> <li>• Civil Investment Trust (CIT)</li> <li>• Nepal Bank Ltd,</li> <li>• Rastriya Beema Company,</li> <li>• Hydropower Investment and Development Company,</li> <li>• Nepal Stock Exchange Limited</li> </ul>	8036

Public enterprises have created a large number of employments in the country. Some of them have ill-fated issues. Government investment is intended to facilitate the public, but some of them are derailed and become institutionally unaccountable. The issue publicized and criticized by decision-makers has been regarding the risk and major hindrances behind the officials. There remains a substantial knowledge gap between the practices of modeling risk in public sector organizations. Regularity in proceeding with ideas and experiences is not developed and tested on a daily basis (Bhatta,2003).

Public enterprises are considered employment provider enterprises. It could be reflected as follows.



Source: *Economic Survey 2018*

Public Enterprises are established with certain operation result-oriented objectives, but in Nepal, the remuneration policy is directly influenced and guided by the government. This results in ineffective incentive mechanisms for the ones responsible for improving productivity directly through their actions. Also, the employment policy is similar to that of the government (as per the Constitution of Nepal 2072, the hiring process in PEs with complete or majority government ownership shall be governed by the Public Service Commission) resulting in the inability of the executives to hire, replace and fire employees as per their actions about the desired output of organization. Nepalese PEs are not receiving the targeted financial goal and social benefit to the public (K.C, 2003).

The necessity of the society should be well addressed through the PEs, which shall result in public appreciation like in the case of Mr. Kulman Ghising and the Nepal Electricity Authority recently. It is highlighted as the employment provider institution. A proper system of appreciation and punishment concerning the work output of the personnel of the PEs is an important aspect that is felt missing in Nepal, whereas the de-politicization of PEs is a major challenge that haunts the government along with the professionalism of the personnel. The major issues in Nepalese PEs can be summarized in the following points:

**Public money personal decision**

- Personal risk during the unpopularity of the decision
- Lack of Result oriented remuneration scheme
- Absence of Social necessity operational pattern
- Lack of Appreciation and Punishment mechanism
- Absence of efficiency-based evaluation pattern
- Outcome = efficiency + productivity

### **Politicization**

After the restoration of democracy in 1990, many businesses were established from the private sector and the economy has seen growth in such businesses as well. The growth in private enterprises in various sectors; airlines, banking, telecommunication, hydropower, production industry, etc. is remarkable but it has been the opposite in the case of public enterprises in similar business. PEs falls out during comparison in terms of profit, service delivery, social audit, investment as well as corporate social activities. PEs established with large investments and a huge workforce fail to perform their business objectives while on the other hand, small private enterprises growing into huge corporate bodies signifies some flaws in the PEs.

The liberalization and privatization policy adopted by Nepal in the era of multiparty democracy reduced the volume of public enterprises, yet, the formation of companies with majority shares of government (or government-owned agencies) is also a form of PEs incorporated under Company Act 2063 BS. The Hydroelectricity Investment and Development Company Ltd., Rashtriya Prasharan Grid Company Limited, Vidhyut Utpadan Company Ltd., etc are some recently established PEs.

### **Comparative Study and Analysis**

A low level of efficiency in resource utilization on average (0.35 on a scale of 0 to 1) is revealed from a study of 68 state-owned manufacturing firms in India over five years (1987 to 1991). (Ahuja & Majumdar, 1998) The relative performance on the criteria of growth of total productivity reflects the performance of Indian public enterprises in the manufacturing sector during the period following 1960-61 can be regarded as quite remarkable, especially about that of the corresponding private enterprises. However, there are criticisms of management on the grounds of low profitability. (Dholakia, 1978)

In Nigeria, public enterprises are corporate bodies other than ministerial departments whose performance has been rated as terribly low being unable to compete successfully with the private enterprises in the same line of business. The policy of privatization has sparked controversy on the grounds of its justification. Problems in Nigeria's public enterprises are characterized by Political Instability, Political Interference, Poor Management, Government Control, and Over Protection by the government, poor attitude to work, and financial mismanagement. (Ogohi, Analysis of the Performance of Public Enterprises in Nigeria, 2014).

State-owned enterprises, a central feature of the Bhutanese economy intended to provide infrastructure and public services including diversification of the economy away from hydropower and agriculture. About a quarter of state-owned enterprises in Bhutan are loss-making which have fully government-serving non-commercial social objectives focused enterprises. It has diverged governance from international best practices with problems characterized by an inability of the Board of Directors, thick involvement by ministers and civil servants in the board, little commercial expertise, a combination of commercial and cross-subsidized social function resulting in low transparency, inability to enact performance-based compensation policies (The world Bank, 2007).

African public enterprises are facing management problems. They are focusing their concentration on lessons (Africa, 1991) to attain efficiency and effectiveness. It needs to avoid the errors of the past.

Requirements of corporate and strategic planning, market orientation, export marketing, technological competencies, privatization, and restructuring are pivotal to securing better performance.

Ghana's public enterprises were heavily infected by political interference, nepotism, over-bureaucracy, and ineffective management control systems are considered chronic realities that could be found in other developing countries also. There is a relative failure of health and state enterprises leading the government of Ghana planning to revert to the autonomous model of public enterprises (Shahzad Uddin, 2005).

Public Enterprises tend to suffer from the classic "tragedy of the commons" spectacle worldwide. If the shared resources are overused in favor of personal gain it is reduced to a very low quantity (Garrett, 1968).

### **Implications and Challenges**

Public enterprises are policy tools of government along with their specific objectives. They should be able to expand organization and activities according to the requirements of society as well as the competitive market at every instant of time. Therefore, they should be as dynamic as the time and society itself. The major challenges observed in Nepalese PEs relates to the absence of specialization, job-related knowledge, lack of technical skills, inefficient subordinates, misuse of authority, over-interference, absence of efficiency – productivity based scheme, depoliticization, etc.

Public sector organizations in developing are suffering from an imbalance between the demand and supply of performance information due to low organizational capacity, limited involvement of well-wishers, and vicious corruption (Putu, et al.2007).

The human resource-related problems are deeply rooted inside the employment policy which fore looks at PEs similar to the bureaucracy. The remuneration policy is guided by a bureaucratic remuneration policy that supersedes output-related remuneration schemes. The changing policy of the government often changes the recourse of the function of PEs which is seen as a major challenge. The Handing over of Budigandaki hydropower to foreign companies and taking back is a good example of a fluctuating policy. Political intervention and power play a challenge in appointing efficient executives.

Excessive political intrusion, lack of adequate accountability and sovereignty, absence of professionalism, reduced monetarist indiscipline, and the absence of subordination of individual interest with organizational interest are some fundamental motives attributable to the worsening performance of the PEs in Nepal. The challenges that affect PEs in developing countries in the world are haunting PEs in Nepal. PEs established with a large investment and a huge workforce are failing to perform their business objectives while on the other hand, private enterprises growing into huge corporate bodies signify some defects. The reformation of the structure of the state signifies a basic transformation in the private sector (Raco,2016). Liberation and the Privatization policy adopted in this era have reduced the volume of its numbers. Most of the PEs are incorporated under the Company Act 2063 which indicates the profit-seeking objectives rather than service provider organization. The Hydroelectricity Company,

Development Company Ltd., Rashtriya Prasaran Grid Company Ltd., and Vidhyut Utpadan Company have recently established PEs.

For economic growth, Nepal applied the Privatization and Liberation Policy, after the restoration of democracy in 1990. The government applied it in a concrete shape and implemented it in various sectors: Airlines, Banking, Telecommunications, Hydropower, Publication, Communication, and Production industries with remarkable status and achievement.

The government is the guardian of the people. It does a variety of welfare activities to provide maximum services to the public. A strong government provides more civic amenities and facilities to the people. As a country is applying a mixed economy, government involvement is needed to fulfill the basic needs of the people of the society. Such provision ensures security and confidence to the people. Such types of organizations are the need of developing countries. Until and unless the country is self-sufficient, government involvement in different sectors is needed. Infrastructure development is a pre-requisite as the private sector always seeks certainty in the business. PEs in today's context are important players in making the market competitive in favor of the public as well as a tool for control of the market by the government. Government through the means of PEs could contribute to infrastructure, balanced development, revenue generation, foreign currency earning, and development of sound international business relations.

## **Conclusion**

A large number of public enterprises are established to favor the people. Some of them are improving. To the remaining also government should restructure the organization with systems and procedures. It should be a matter of pride for the government rather than the forum of appointing the party's cadres. Public enterprises are failing to achieve targets due to inefficient management. Misuse of the organization's property in irrelevant issues and a weak system of performance appraisal encourage personnel to act in any manner. The management and operation of public enterprises is degraded by power play through political interventions which is a salient feature in PEs of developing countries.

Excessive political interference, lack of adequate autonomy, lack of response over responsibility, absence of professionalism, unchecked financial discipline, the same objective but diverse strategy of achieving and conflicting goals, and the governing party's flourished sources of employment generation have been the main reasons responsible for the miserable performance of PEs in Nepal.

PE should address the necessity of society that could result in public appreciation like Mr. Kulman Ghising and the Nepal Electricity Authority. A proper system of appreciation and punishment, a political pressure-free environment, emphasis on efficiency, and disregard for scope for favoritism support uplifting productivity and efficiency. De-politicization of PEs is a major challenge that haunts the government along with the professionalism of the personnel. The major issue concerns public money and personal decisions, personal risk in dis-credibility, the absence of result-oriented remuneration, and the absence of social necessity-based operation patterns. If the authority having a vision and strategy of lighting in a shaded black box, PEs will be the milestone in uplifting the condition of the Nepalese people and country.



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