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The Impact of Privatization on Public Enterprises in Nepal

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Abstract

Public Enterprises (PEs) were established globally after 1930 with the goal of accelerating national economic growth. These entities were seen as key drivers of socio-economic development across different political systems. However, by the late 1970s, the financial and operational inefficiencies of PEs led to an increased economic burden on public funds. In the early 1980s, a new concept emerged globally aimed at economic reforms, known as economic liberalization, open market policies, and globalization. Privatization became a key tool for implementing this concept, with the objective of transferring public sector authority to the private sector to improve the financial and operational performance of PEs.

Since 1992, the government of Nepal has followed this global trend, privatizing 30 PEs by 2020. Of these, 22 PEs were privatized through methods such as share sales and liquidation, while the remaining ones were privatized through business sales, management contracts, or dissolution. Among the privatized PEs, 11 are still operational, with 8 having been privatized via the share sale method. Between 1992 and 1996, as well as 2002 to 2006, a significant portion of PEs were privatized. However, privatization efforts have slowed down after 2008. This analysis is based on secondary data, and the findings are presented using percentage calculations.

Key word: liquidation, performance, Privatization, public enterprises, share sale

Introduction

Public Enterprises (PEs) began to grow worldwide after 1930, with the primary goal of accelerating national development through government intervention in sectors such as trade, industry, social services, finance, and public utilities. From a capitalist perspective, PEs were viewed as a means to control private sector monopolies within the economy. In contrast, the socialist viewpoint saw PEs as a cornerstone of the economic system. Powell (1978, p.28) argues that PEs are organizations with primarily economic objectives, but also possess social and political goals. In the initial stages of establishing PEs, they were considered a key instrument for accelerating national economic growth while preventing monopolistic practices by the private sector. Hanson asserted that regardless of the ultimate viewpoint, a country aiming for economic development has no choice but to utilize public enterprises on a significant scale to kick-start progress.

In Nepal, the establishment of PEs followed the global trend. These enterprises were tasked with strengthening the national economy and improving the living standards of the general population (KC, 1994, p.1). Nepal adopted a mixed economic system, where both the government and private sector play roles in the country's socio-economic development. By the end of the Seventh Five-Year Plan, the government had established 66 PEs, covering a range of sectors such as industry, trade, services, social welfare, public utilities, and finance.

Public Enterprises (PEs) were envisioned as a tool for production and the implementation of socio-economic policies within the country (Bajracharya and Sharma, 1996, p.28). In Nepal, PEs were established with multiple objectives, granted by various legislative Acts. The main goals for establishing PEs in Nepal were largely centered around the following objectives (Shrestha, 1990, p.73):

a. Providing infrastructural facilities and services,
b. Supplying basic consumer and development goods,
c. Ensuring an adequate supply of essential goods,
d. Offering managerial support to enterprises in need,
e. Providing entrepreneurial support to struggling enterprises.

In the early 1980s, Public Enterprises (PEs) were increasingly seen as a burden on national economies worldwide. PEs are often criticized for being subsidized by governments, operating at a loss that ultimately impacts taxpayers, offering poor-quality goods and services, limiting consumer choices, and remaining stagnant (Yaqub, Faisal, & Khan, 2011). The operational and financial performance of these enterprises was generally ineffective, with several underlying causes. It was also reported that between 1976 and 1978, public enterprises accounted for one-third of the borrowing by developing countries in capital markets (World Bank, 1980). As a result, globalization, liberalization, open markets, and the structural transformation of national economies became significant global issues. In response, the downsizing of public enterprises became a strategy to create space for the private sector to take the lead in driving economic growth and reduce costs associated with subsidizing struggling enterprises. Souza et al. (1999) argued that factors such as insufficient returns on investment, low production efficiency, and evolving global policies pushed governments to implement economic reforms. Ramamurti (1992) noted that economic liberalization gained global acceptance in the 1980s, impacting both rich and poor countries, large and small, with governments adopting a wide range of ideologies. In this context, privatization of public enterprises became seen as a key step toward liberalizing national economies.

Savas (1989) defined privatization as the process of reducing the government's role while increasing the involvement of private institutions in meeting societal needs. This shift means placing greater reliance on the private sector and less on the public sector. Privatization involves transferring ownership of assets to the private sector (Shirle, 1992, p.24). Notable examples of privatization include the sale of companies like British Telecom, British Gas, and Japan Airlines to millions of small investors, as well as the privatization of the Chilean state-owned airline and the Mexican telephone company to multinational corporations and foreign investors (Ramamurti, 1992). A common criticism of privatization is the concern that private owners may waste resources or divert profits abroad, instead of reinvesting them locally (Anastassiou and Doumpos, 2000, p.111).

Since 1992, the Nepalese government has adopted a liberal economic policy. By that time, the government had privatized 30 out of the 66 public enterprises (PEs) that had been established with multiple objectives. Initially, the government invested heavily in these enterprises, but over time, these investments were gradually reduced, eventually becoming negative, contrary to the original goals. Many of these organizations incurred significant capital and loan liabilities from the start. As a result, the rate of return on investment was low, and PEs became a burden on the national treasury. The government privatized these PEs through various methods, including liquidation, dissolution, share sales, asset and business sales, and management contracts. The primary objective behind privatizing these PEs was to improve their financial and operational performance, as well as to alleviate the financial burden they placed on government finances. Despite widespread dissatisfaction with the performance of PEs being a driving factor behind privatization efforts, the outcomes of the privatization program over the past decade have not met the expectations of policymakers (KC, 1999[a]).

Statement of problem

The 1980s marked the era of economic liberalization, open markets, and privatization worldwide. Since then, many countries have adopted liberalization policies through privatization. These liberalization programs were launched under the guidance of international organizations as part of structural adjustment initiatives. The underlying assumption was that the economic burden on nations could be reduced by generating income from the sale of public enterprises (PEs) or by improving their performance through private sector involvement. This policy led to a reduced role for the government in sectors such as business, industry, and public utilities. For example, the Greek government recently announced plans to reform and restructure several public enterprises facing significant financial and operational challenges, signaling its intention to proceed with carefully planned privatizations (Anastassiou and Doumpos, 2000, p.12).

In Nepal, the government has been running a privatization program since 1992. During this period, 30 PEs have been privatized using various models. The operational and financial performance of these privatized enterprises is still under evaluation. While the government has implemented different privatization models, there remains a lack of comprehensive evaluation to determine which model has been most effective in terms of financial and operational outcomes. The following research questions have guided the research.

A). How are privatized enterprises operating under objective of privatization?

B). How many models of privatization are followed by government of Nepal?

C). Which model of privatization is performing better according to their operation condition.

Objectives of the Research

The major objective of this research is to show the applying model of privatizations and their impacts on operation at present. The specific objectives of the research are:

A). To reveal the privatization model followed by Nepal Government in PEs privatization

B). To identify the better model of PEs privatization in Nepal according to existing operational condition

C). To investigate the implementation progress of privatization program of Nepal

Research Methodology

This research is conducted using a descriptive approach. The study focuses on 30 privatized public enterprises, which serve as the sample for the analysis. The data utilized in the study are obtained from secondary sources, including the Economic Survey, Performance Evaluation Reports of PEs, and publications from the Ministry of Finance, National Planning Commission, Central Bureau of Statistics, as well as research articles and websites. The data used for the analysis covers the period from 1992 to 2016. Percentage analysis is employed as the primary method of analysis.

The method is employed to examine the privatization and the organizations functioning in Nepal. Moreover, the methodology is based on the analysis of the secondary data found on the various journals and waves regarding the impacts of the privations in Nepal. It has the similar method as Adhikari (2020& 2024) and Adhikari et al (2020 &2022) and Adhikari (https://doi.org/10.3126/kv.v5i1.70884 & https://doi.org/10.3126/taj.v3i1.71972 & DOI: http//doi.org/10. 25058/179400x.1709 &.www.ijtell.com. &.www.ijoes.in. & www.ijtell.com DOI: 10.47311/IJOES.2025.7.02.28.) have employed in the qualitative research. Likewise, Adhikari et al (2024 http:// dx.doi.org/10-15294/paramita. V34i. 47901. &2024 http://dx.doi.org/10-15294/paramita. V342i.50309) and Guragain, et al (2024DOI:10.59324/ejtas.2024.2(5).07&2024www.tijer.org.,&2024DOI:10.59324/ejtas.2024.2(4).20,&2024WWW.GRPUBLISHING.ORG,&2024https://doi.org/10.18535/sshj.v8i09.1295, & 2024doi:10.29121/granthaalayah.v12.i7.2024.5687,&2024www.journalems.comDOI:10.59573/emsj.8(2).2024.35) have applied the similar research methodology in their qualitative research as this research has used for the detail analysis of the data found in the various journals and waves.

Significance of the Research

This research relies on secondary data sourced from published documents provided by the relevant organizations. The accuracy and credibility of the research are contingent on the reliability of the data published by these organizations. The analysis and conclusions are derived using percentage-based calculations. All privatized public enterprises (PEs) have been included in the analysis. The findings of this research are intended to be valuable for policymakers addressing related issues and will also serve as a useful resource for future researchers in this field.

Discussion

The United Nations (1968) defined public enterprises (PEs) as industrial, agricultural, and commercial entities owned and controlled by the central government (in a unitary state) or by both the central and regional governments. These enterprises are established as corporate bodies that function as part of the governmental structure to achieve entrepreneurial or entrepreneur-like objectives. In 1971, the United Nations expanded this definition to include incorporated or large unincorporated enterprises in which public authorities hold the majority of shares and/or can influence management decisions. This definition clarifies that PEs are enterprises where the public sector, rather than the private sector, holds full or partial ownership with a majority shareholding. Friedmann and Garner (1970) also identified several reasons for establishing PEs,

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such as promoting and accelerating economic development, addressing defensive needs, controlling monopolistic industries, and reflecting political ideologies. In India, since independence, the public sector has been guided by the Industrial Policy Resolutions of 1956 and 1991, with goals of accelerating economic growth and industrialization to achieve a socialistic society (Mathur & Mathur, 2010, p.506). Ogohi (2014) highlights that the rationale for establishing PEs in Nigeria includes inadequate resources in the private sector, political motivations in the social and economic sectors, government intervention in providing and managing goods and services, protecting consumers, national security concerns, and the indivisibility of certain goods and services. These discussions illustrate that PEs were established with the expectation of accelerating national economic development through government involvement for the social and economic well-being of the country's citizens.

Performance measurement has become increasingly important for businesses in today's competitive environment. Neely et al. (2002) defines a performance measurement system as a set of metrics used to quantify the efficiency and effectiveness of actions. Over the years, the scope of performance dimensions considered has progressively expanded. Otley (2003) and Bato et al. (2011) note that during the 1950s and 1960s, performance measurement systems began to extend their focus to divisional and departmental budgets, still concentrating primarily on economic and financial performance. Arena et al. (2015) identified four main models for performance measurement in social enterprises, based on the work of various experts. These models include: (1) adaptations of the balanced scorecard, (2) contingency performance measurement system models, (3) performance measurement system models that incorporate the perspectives of different stakeholders, and (4) social return on investment (SROI).

Measuring the performance of public enterprises (PEs) is a complex task, and different experts have varying perspectives on the matter. Shrestha (1988) suggested that PEs should be evaluated based on the benefits they provide and their ability to safeguard the public interest. Jenkins (1978) proposed that PEs have three main objectives: financial, economic, and social distributional. In terms of financial performance evaluation, profitability reflects a PE's ability to generate profits, which in turn impacts the level of investment, as a significant portion of industrial investments is financed through reinvested profits. This profitability is also a measure of the PE's market strength and its ability to control costs, thereby contributing to the overall economic growth (Killick, 1983, p.183).

Profitability serves as a composite indicator, assigning positive weights to benefits (outputs) and aiming to maximize benefits while minimizing costs, which is a core aspect of efficiency. Financial profitability assigns weights to costs (inputs), and if prices are correctly set, a profit-maximizing firm strives to achieve the simplest and most straightforward indicator of its success. Performance measurement systems (PMS) originated in the business world, initially designed with the perspective of profit-driven businesses (Speck Bacher et al., 2003).

Narain (2003) defines privatization as the reduction of the state's involvement in the lives and activities of its citizens, while enhancing the role of markets. In a more specific sense, privatization refers to the transfer of ownership from the public sector to the private sector or the transfer of control over assets and activities, as seen in privatization through leasing, where ownership remains with the public sector but management is handed over to private parties. This definition clarifies that privatization involves transferring ownership or control from the public to the private sector using various models. It is considered a major economic, social, and political phenomenon (Miller, 1997). Supporters of reforms suggest that public enterprises should be run as fully commercial entities, independent of political influence, receive full compensation for community service obligations, and face competition with strict budgetary controls and accountability (Anere, 2009). The Privatization Act of 1994 outlines specific privatization models, including the sale of assets and businesses, share sales, and sale-cum-lease arrangements.

Souza et al. (1999) argue that factors such as low returns on investment, poor production efficiency, and changing global policies prompted governments to initiate economic reforms. Arun and Nixson (2000) contend that the primary goal of disinvestment was to reduce the public sector's borrowing needs while restructuring and rationalizing public sector enterprises (PSEs) more generally. Unfortunately, the privatization and commercialization programs of public enterprises face numerous challenges, including corruption, lack of transparency, and inconsistencies, among others (Ogohi, 2014, p. 24). Vickers and Yarrow (1988) identified several objectives of privatization as a policy, including:

- Improving efficiency
- Reducing the public sector borrowing requirement and enhancing decision-making
- Addressing issues related to public sector pay determination
- Expanding share ownership
- Gaining political support.

Sarker (2006) highlights that Bangladesh has faced limited success in implementing reforms, particularly due to its failure to establish strong institutional frameworks, rule of law, effective control structures, checks and balances, and accountability. The case of Tajikistan also exemplifies challenges in successful reform implementation, where factors such as civil war, the country's location in a politically unstable region, the significant out-migration of qualified experts, and the central government's inability to adapt to transition requirements hindered progress. Despite attempts to reform public enterprises, these factors have led to varying financial performance outcomes. In New Zealand, however, the 14 public enterprises corporatized in 1987 showed success in terms of productivity and profitability (ADR, 2011). Yet, in the last nine years, with a stronger economy and substantial fiscal surpluses, the reform process slowed down, as the fiscal need for public enterprise reforms (PER) and political commitment decreased, resulting in declining performance (ADB, 2011). In Nepal, the government has privatized 30 public enterprises, of which 11 are still operational. Out of these, only five enterprises are performing well and generating profits (Annual Performance Review of PEs, 2016). Raut (2012) noted that Nepal's recent experience with privatization has been disappointing, and although the privatization process has slowed in recent years, the performance of privatized units has struggled, mainly due to labor issues, raw material shortages, and frequent power outages.

Privatization of public enterprises in Nepal has had significant socio-economic, political, and economic effects. These effects are widely debated, with some arguing that privatization boosts

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efficiency and reduces fiscal burdens, while others express concerns about job losses and the widening income inequality. Here's a brief overview of its impact, along with references.

Authenticity of Private Enterprises

Efficiency Gains: One of the main reasons for privatizing public enterprises is to improve efficiency. The idea is that private companies, driven by profit motives, are better at managing resources, reducing wastage, and maximizing output compared to state-run enterprises. Nepal has experienced efficiency improvements in sectors like telecommunications and airlines after privatization (e.g., Nepal Telecom and Nepal Airlines).

Reduction in Fiscal Burden: Public enterprises in Nepal often operate at a loss, requiring government subsidies to stay afloat. Privatization helps reduce this fiscal burden, as private enterprises tend to focus on profitability and cost-cutting (Guragain et al., 2024). For example, the privatization of Nepal's banking sector, such as Nepal Industrial Development Corporation, improved financial stability and access to capital for businesses.

Job Losses: Privatization often leads to downsizing and layoffs, especially when privatized enterprises undergo restructuring to cut costs. This has led to concerns about rising unemployment and its social consequences, particularly in sectors like transport and manufacturing (Adhikari, 2024).

Increase in Inequality: Critics argue that privatization contributes to the concentration of wealth, as privatized companies may not focus on equitable growth. Wealthier individuals and corporations often benefit from privatization, exacerbating income inequality (Adhikari et al., 2024).

Public Access and Quality of Services: While privatization can lead to better service quality in some cases, it can also limit access for the poor, as private enterprises may focus on areas that are more profitable, neglecting rural or underprivileged areas. This is particularly a concern in sectors like health and education, where privatization might reduce public access (Adhikari & Guragain, 2024). These are some of the data for the authenticity of the privatization in Nepal. For more details, the following data analysis private enterprises.

Analysis of the Data

Data analysis is a crucial component of research. It involves examining and interpreting data and facts, which are then presented through tables, charts, and graphs. The analysis of this data enables the researcher to draw conclusions based on the findings. In the context of privatized public enterprises, data related to these entities is analyzed to support and validate the objectives of the study.

Model and Number of Privatized Public Enterprises

The Government of Nepal has utilized five different privatization models to privatize 30 public enterprises (PEs). Table 3 illustrates the privatization of PEs by period. The analysis indicates that the years 1992-1996 and 2002-2006 were particularly significant for privatization, with 26

PEs, or 86.67%, being privatized during this time. The findings also reveal that no public enterprises were privatized in the later years. This lack of progress can be attributed to several factors, including political instability, ideological differences between political parties, and other delays**.**

Table 1: Period wise privatized Public Enterprises.

Year	**No of Privatize PEs**	**Percentage**
1992-1996	**12**	**40**
1997-2001	**3**	**10**
2002-2006	**14**	**46.67**
2007-2011	**1**	**3.33**
20012-2016	**–**	
Total	**30**	**100**

Soror And Performance Review of Public Enterprises 2002 to 2016

Finding

Privatization refers to the transfer of ownership of public enterprises from the government to the private sector. Various models of privatization have been implemented, with the Nepal Government launching its privatization program after 1992. However, such practices were already underway in developed countries since the 1980s.

- Over the past 25 years, the Nepal Government has privatized 30 public enterprises out of the 66 that were established.
- The government employed several models for privatization, including liquidation, share sale, assets and business sales, management contracts, and dissolution. Among these, the share sale and liquidation models were most commonly used, accounting for more than 73% of privatized public enterprises.
- The results indicate that the operating conditions of privatized public enterprises have not been satisfactory. Currently, only three of the privatized public enterprises remain in operation. The goal of improving their financial and operational performance has not been fully achieved.
- The analysis shows that the share sale model has been the most successful in Nepal in terms of operational performance. Out of 11 privatized public enterprises, 8 (72.73%) are still operational. In contrast, privatizations through liquidation and dissolution models have not shown positive results in improving performance.

- Nepal's privatization program was most active between 1992-1996 and 2002-2006, during which 26 public enterprises (more than 39%) were privatized. However, privatization efforts have slowed down in recent years.

Conclusion

Public Enterprises (PEs) were initially established worldwide to foster the socio-economic development of nations. In capitalist countries, they were created to control monopolies in the private sector, while in socialist countries, they served as the cornerstone of the economic system. However, by the end of the 1970s, PEs failed to meet their objectives and became a financial burden on national treasuries due to inefficiencies in operations. The 1980s marked the rise of economic liberalization, globalization, and open market policies. In response to these trends, government-owned public enterprises were transferred to the private sector as part of privatization efforts aimed at economic reforms globally. Privatization involves transferring ownership of assets to the private sector (Shirle, P524).

The Nepal Government initiated its privatization program in 1992, adopting five models of privatization: share sale, asset and business sales, liquidation, management contracts, and dissolution. Of the 66 public enterprises in Nepal, 30 were privatized, with share sale and liquidation models being the most common, accounting for more than 73% of the privatized PEs. However, only 36.67% of these privatized enterprises remain operational, with the majority being from the share sale (equity sale) model. Based on this outcome, it is recommended that the share sale model be favored in future privatizations.

In the 25 years of privatization, a significant number of PEs (more than 20) were privatized during the periods from 1992 to 1996 and from 2002 to 2006, which can be considered the "golden periods" of privatization. Unfortunately, progress in privatization has stalled in recent years. This finding aligns with the ADB (2011) report, which notes that over the last nine years, the privatization process has slowed due to improved economic conditions, consistent fiscal surpluses, and diminishing political commitment. Consequently, public enterprise performance has deteriorated.

The analysis of privatized public enterprises reveals that a significant number of these enterprises were closed after privatization. The Nepal Government needs to investigate the underlying causes behind these closures, especially considering the role these enterprises play in import substitution within the national economy. It is recommended that, in the future, the government prioritize the share sale model of privatization over other approaches. Additionally, the objectives of privatization should be reassessed and updated to ensure they align with the broader goals of sustainable economic development and national interest.

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