CHAPTER I

INTRODUCTION

1.1 Introduction

Till the end of the nineteenth century, the philosophy of 'laissez-faire' propounded by classical economists reigned supreme, and the free operation of the forces of supply and demand in the market place was the general rule of economic policy. The activities of the State were mainly confined to providing public utilities, and creating the required economic and social infrastructure. It was strongly believed that maximisation of private benefit also leads to maximisation of social benefit. However, after the success of economic planning in the Soviet Union, the Great Depression of 1929 and the rising influence of Keynesianism, it was increasingly realised by the governments, especially in the developing countries, that they could no longer rely on market forces for rapid growth. Consequently, the governments were called upon to take the initiative in the development process of the country very actively and in providing goods and services. This envisaged an important role for public sector enterprises.

1.2 The Planning Process and the Evolution of Public Enterprises in Nepal

After the fall of Rana regime in 1951, with a view to stepping up the pace of economic development, to reducing the excessive reliance on agriculture, to creating an industrial
atmosphere in the country, and to increasing the national income by bringing about a proper balance and coordination among various sectors in the economy, the planning process started in Nepal in the year 1956. Since then, Nepal has been having five-year plans with the exception of a three-year plan between 1962-65. The year 1961-62 was a non-plan year. Presently, the Sixth Plan (1980-85) is in operation.

In the First Plan (1956-61), nothing was mentioned regarding the establishment and role of public sector enterprises. The plan accepted the "principles of mixed economy" and simply stated that the Government would initiate those industries which promised greater public welfare and where the investment is not attractive to the private sector.¹ The industrial policy during the plan period accepted the government's crucial role in promoting, assisting and regulating industrial development in the country; some public enterprises were also established.²

In December 1960, there was a significant change in the political system of the country. The parliamentary form of government was abolished by the King. The King justified his


² During the First Plan period, Royal Nepal Airlines Corporation, Nepal Industrial Development Corporation and the Timber Corporation of Nepal were established, and the management of Mahapurati Jute Mills Limited (established in 1946) was taken over by the Government because of the failure of the unit to repay government loan. The loans advanced to the enterprise were converted into state's shareholdings.
action on the ground that the economic conditions of the country were rapidly deteriorating and welfare of the people was being neglected in the presence of parochial interests and a rapidly rising level of corruption. He, then proclaimed the Partyless Panchayat Democracy under his guidance and leadership and pledged rapid development of the country, free from exploitation.

After the political change of 1960, a massive drive was launched to obtain maximum techno-economic cooperation from other countries and international institutions, both on multilateral and bilateral levels. This automatically led to an expansion of the role of the bureaucracy. It was at this stage that the government felt the need for innovating a new institutional medium (that is, public enterprise) that could function more on business principles than on bureaucratic methods. Moreover, it was envisaged that state-run enterprises should be able to stand on their own for their development and growth. Then in 1962, a Three Year Plan was launched.\(^3\)

In the Second Plan (1962-65)—three year plan—the public corporation as an institutional vehicle for economic development of the country was accepted. Dividend receipts from public enterprises as one of the major sources of resources for the government was emphasized.\(^4\) The Plan envisaged an

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\(^3\) During the non-plan year (1961-62), three public enterprises—Katena Recording Corporation, National Trading Limited and National Construction Company of Nepal—were started.

increased role for the already established National Trading Limited in the field of expanding the Nepalese foreign trade with other countries in the future. It also aimed at completion of the construction of a sugar factory in Birgunj and a cigarette factory in Janakpur, both under the Russian techno-economic cooperation. The plan expected that the paper and cement factories at Nepalgunj and Metauda, respectively, would also be largely completed. In fact, the cement factory is presently under construction, and no work has yet been initiated in case of paper factory. However, there was nothing mentioned in the plan draft regarding six other enterprises, which were later established in the public sector during the same plan period.

In the year 1965, the Third Plan (1965-70) was put into operation. From this plan onwards, outlays for the private and panchayat sectors were provided. The plan was geared to promote industrial development through the private sector, and for this purpose, the government planned to give special attention to the fuller utilization of available economic overheads, to provide financial and technical assistance, and other facilities and concessions in respect of income-tax, import and export duties, repatriation of profit by foreigners and so on. The Plan laid emphasis on the fuller utilization of existing capacities in industries. In order of priority, import

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5 They were: Provident Fund Corporation, Gorakhpatra Corporation, Nepal Electricity Corporation, Kastriya Banijya Bank, Transport Corporation of Nepal and Fuel Corporation.
substitution, basic and export-oriented industries were listed. Some two dozen industries were mentioned for establishment in the private sector. In the public sector, important industries such as cement, lime, fertilizers, mica, etc., were to be established. Targets were fixed for industries like cement, paper, solvent extract, and paint varnish. But these industries never came into existence. However, in the plan, His Majesty’s Government (hereinafter referred to as HMG) had given priority for the development of basic industries in the public sector. During the Third Plan period, ten public enterprises were established.6

In the Fourth Plan (1970-75), granting incentives for investment in the private sector was regarded as one of the major policies. However, the plan document rushed to add that if the provision of facilities and incentives do not result in an increase in the quantum of productive investment, the government would have to be active in directly establishing industrial projects. It also visualized that problems could arise in regard to management and operation of such industries, and if they are not run satisfactorily, consumers will suffer from unwarranted difficulties and there will also be a

6 They were: Banswari Leather and Shoe Factory Ltd., Brick and Tile Factory Ltd. (both under Chinese techno-economic aid), Agricultural Tools Factory Ltd. (Russian techno-economic aid), Dairy Development Corporation (under financial and technical loan from the Netherlands, New Zealand and Denmark), Agricultural Input Corporation, Cottage Industry and Handicrafts Emporium, Nepal Tea Development Corporation, Agriculture Development Bank, National Insurance Corporation and Nepal Telecommunication Board (now a Corporation).
substantial decrease in governmental income. The document doubted the desirability of government intervention and competition with the private sector except on two main grounds: (1) to regularly provide consumable goods of reasonable quality at fair prices to the consumer, and (2) to increase government revenue by earning a fair profit which can be invested in development works.

It was explicitly expressed that, during the plan period, only a couple of industries would be set up in the public sector, if deemed necessary. However, no specific industry was named in this respect. The type and list of industries to be established in the private sector were outlined. A policy of giving priority to labour-intensive industries was adopted. The plan promised that a definite and firm industrial policy would be followed during the Fourth Plan period. As a result of this, a new and comprehensive industrial policy covering a wide range of facilities and concessions was announced in 1974.7

The Industrial Policy made the investment policy clear. Industries relating to defence and social overheads like electricity would be the monopoly of the State. In respect of the basic industries like iron-steel, chemical fertilisers, petroleum and cement, Government reserved the right of investing a minimum of 51 per cent and maximum of 100 per cent.

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Similar policy was envisaged in case of primary consumption goods like cotton textiles, medicines, dairy products, and paper. Thus, in both these industry groups, the private sector was to be allowed a maximum share of 49 per cent. For the rest of the industries the private sector was given freedom to invest up to 100 per cent of the total investment. The Industrial Policy also explicitly stipulated that in case industries do not come up in the private sector according to the national plan, government may establish them with a provision to sell their shares to the private sector later. Thus, the Government assigned an increased role to the private sector in the industrial development of the country.

During the Fourth Plan period, a number of public enterprises were established. Their total number at the end of the plan period stood at 19, including eight paddy and rice export companies.\(^8\) Presently, out of these 19 enterprises, only eleven are functioning.\(^9\)

Since the private sector failed to take advantage of the opportunity given to it, the Government, in the Fifth Plan (1975-80), modified its earlier approach of depending solely on the private sector, and assigned a greater responsibility to

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\(^8\) These eight companies stood dissolved immediately on the announcement of the Annual Budget for the FY 1981-82 in July 1981.

the public sector for increasing industrial output. However, the industrial policy announced in 1974 was to be continued in operation during the Fifth Plan period as well, with priority to the industries in the public sector.

During the Fifth Plan period (1975-80), there were proposals for setting up some industries either in the public sector or joint sector. They included resin and turpentine plant, magnesite and F.H.P. fertilizer plant, paper and pulp factory, and cement factories at two places. But, no progress has been recorded so far in respect of these industrial units, except for some work initiated in case of a cement factory at Hetauda. It had also been envisaged to implement the public sector projects already set up during the Fourth Plan. The production targets for six of the public enterprises, namely, Birgunj Sugar Factory, Agricultural Tools Factory, Janakpur Cigarette Factory, Leather and Shoe Factory, Brick and Tile Factory and Nepal Tea Development Corporation, had been fixed. During the plan period, the government hoped to receive Rs.250 million as return from investment in the public enterprises. But as the data will show later, this turned out to be an optimistic target.

Presently, the Sixth Plan (1980-85) is in operation. The plan has, among other things, laid stress on increasing production in both the agricultural and industrial sectors,
increasing employment opportunities and fulfilling the minimum basic needs of the people.

Realizing that the industrialization in the country was still in a primary stage, the Plan raised two crucial issues:
(a) What type of industrial policy should Nepal adopt?; and
(b) What type of industrial development should be given priority?
The plan document states that the policies should be clearly spelt out, and establishment of any type of industry which caters to the demand in the market should be welcomed. The plan also emphasized the need to control international border for protecting home industries from foreign competition.

In 1980, a new industrial policy has been announced by the government, which is a modified version of the 1974 policy. In the new policy, foreign investors have been given facilities regarding repatriation of capital and dividend, assurances for non-nationalization of industries owned by them, etc. The basic objective has been to encourage private sector participation in the industrial investment. Except for the industries related to defense, all the industries are open to private investment. But the policy also makes it clear that if the private sector does not come forward for investment, HMG or its agencies would take initiative to start industries with a view to selling them later to the private sector. So, the present industrial policy has been especially framed to make investment in industries by the private sector more attractive.

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 private capital. Although the place of private sector has been clearly defined in the plan documents, and requisite facilities and concessions are announced, the private capital has not come forward because of the alleged lack of 'proper coordination and consistency in Government's policy and action', and as in many cases facilities granted earlier have been withdrawn later. The private sector has always been urging for a favourable industrial climate and facilities for participation in the public sector industries. The private sector alleges that frequent changes in HMG policies have created uncertainty and confusion in the minds of those willing to invest in industries.

Thus, the evolution of public enterprises in Nepal indicates that "this form of institution is accepted as a handy tool to solve some of the immediate problems encountered by the government". Government's decision to establish public enterprises for accelerating the pace of economic development

12 Pashupati Giri, "Welcome Speech of the President of Federation of Nepalese Chamber of Commerce and Industry (FNCCI) at the Seventh Annual Inaugural Function," Udyog Baniya Patrika (Journal of FNCCI), Year 6, No.5, Jestha-Ashadh 2030 (1973), Kathmandu, pp. 5-9.

13 See: Speeches of the Presidents of FNCCI at the annual inaugural functions, published in FNCCI journals since 1971 onwards.

was neither a part of an overall development strategy nor was it based upon any political ideology and perspective thinking. Instead, the outcome has been a result of the ad hoc decisions taken by the government from time to time to meet particular situations, and decisions necessitated by foreign aid requirements as also by the unwillingness of the private sector to invest. To illustrate this, let us take the case of National Trading Ltd. (NTL). 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, such commodities were handled by HMG, Ministry of Industry and Commerce, Department of Commerce, and the sale proceeds were handed over to the government to meet the local cost components of the projects executed by those countries. But, soon, the Department of Commerce faced many operational difficulties in dealing with the situation and hence a need was felt for creating an organization that could deal with the problem smoothly and independently. Thus NTL was created.

Today, public enterprises constitute a large and critical aggregate of investment, spread over a wide field of activities ranging from selling of salt, sugar, firewood and cigarettes to providing of banking and financial facilities and air transport service. The equity participation of government in the public enterprises reached a level of Rs.1,435 million in 1979-80 from Rs.280 million in 1970-71 (see Appendix Table 3). The number of public enterprises also went up from twenty-four in 1970-71 to forty-six in 1979-80. These enterprises provided jobs to about twenty-six thousand people by August 1979.
1.3 Resume of Earlier Studies

To the researcher's knowledge, only a few research studies have been undertaken in the field of public enterprises in Nepal. They are: (i) Economic and Management Study of Public Enterprises in Nepal,\(^\text{15}\) (ii) Contribution of Some Public Enterprises to HMG Revenue,\(^\text{16}\) and (iii) Performance of Public Enterprises in Nepal.\(^\text{17}\)

1.3.1 Economic and Management Study of Public Enterprises in Nepal

This is the first systematic attempt to study the working and management of public enterprises in Nepal since their inception. The report is basically divided into macro and micro parts. In the macro section, an attempt has been made to analyse the working of public enterprises at an aggregate level covering, among other things, the structure and managerial setting. In the micro section, report on twenty-five different enterprises has been presented. The study covered a period of eight years, between 1964-65 and 1971-72. The study was based on the financial reports of the enterprises, questionnaire and meeting with the chief executives.

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The study undertaken by MCC was a preliminary attempt to understand the effectiveness of public enterprises in the political, economic and social setting of the present-day Nepal. But the study did not cover important areas like internal decision-making process, communication system, pricing and investment. Some of the principal findings of the study were: (a) the government has not received a fair rate of dividend on its investment from public enterprises; (b) due and serious attention has not been paid to the assets management in general and current assets management in particular; (c) the corporations lack operational objectives either in physical or financial terms; (d) use of modern management techniques and tools has not been made; and (e) corporations are given functional and procedural autonomy only on paper but not in reality. As a result of this, day to day administrative operations are gradually becoming a part of regular bureaucracy with similar official procedures. Thus, the whole idea of bringing out new entrepreneurship has not been achieved. The study recommended that an in-depth study in the area of internal decision-making process, communication system, informal group dynamics involved in decision-making and many other areas like pricing and investment need to be studied in detail by future researchers interested in the evolution of public enterprises as an institutional medium in the country.

1.3.2 Contribution of Some Public Enterprises to MCC Revenue

The study covering the period from 1970-71 to 1973-74, showed how much revenue in the form of dividends, interest,
taxes, customs, excise and royalties has been contributed by the twenty public enterprises. For this purpose, government investment, reserve fund, net worth and revenue were estimated. A number of ratios, such as the following, were also computed: (a) Government investment to total revenue (interest plus dividend); (b) Government investment to total revenue (including interest, dividend and indirect taxes); (c) total investment to total revenue plus reserves; (d) dividend pay-out ratio; (e) share capital to reserves; and finally, (f) net profit to total investment. The study recommended that the non-financial public enterprises should pay a dividend of at least 50 per cent of the post-tax profit. It has only computed certain ratios using the data but no conclusions useful for policy decisions have been made by the research agency.

1.3.3 Performance of Public Enterprises in Nepal

This study covers both non-quantitative and quantitative aspects of 51 public enterprises in Nepal from 1970-71 to 1974-75. Regarding the non-quantitative aspects, the study has dealt with (a) the growth of public enterprises in Nepal, (b) EMO's implicit and explicit motives behind its involvement in public enterprises, (c) structure of internal control mechanism, (d) patterns of top management, (e) legal structure of public enterprises, and (f) structure of output market. As regards estimation of quantitative indicators, the focus of attention was on (a) assessing value-added contribution of all public enterprises, (b) assessing gross capital formation and gross fixed assets, (c) estimating enterprise savings and owners'
investment in public enterprises, (d) assessing financial return to the enterprises and revenue contribution to HMG, and (e) exploring employment and personnel aspects. The study has very limited use for policy decisions as it is of only informative type.

The studies mentioned above have not explored a useful and vital area like pricing policy. It would have been more fruitful if the topics like measures of profitability, general financial health of the enterprises, and the question like 'what pricing policy has been followed in the Nepalese public enterprises?' had been included in the study. The calculation of enterprises' contribution to government revenue by including indirect taxes like excise, custom, etc., and corporate taxation does not appear to be sound, since whether the enterprises are established in the public or private sector, government would, in any case, be receiving these revenues.

1.4 Objectives of the Study

Given the objectives under various plans, one of the major objectives of creating public sector enterprises in Nepal has been to mobilise the internal resources needed for the economic development of the country. However, earlier studies show that the performance of public enterprises from the point of view of resource mobilization has remained far below expectations. For example, during a period of eight years (1964-65 to 1971-72), the government received a dividend, ranging between 0.38 and 1.07 per cent of the net worth.\(^\text{18}\) Similarly, HMG has

received less than one per cent dividend on its net worth between 1972-73 and 1974-75. The Government has also recognized that "the return on the massive investment in industrial and commercial organizations has been negligible. ... A number of public enterprises have borrowed from the commercial banks for working capital on the basis of guarantee provided by the Government. It has become clear that they will not be able to pay back the debt exceeding Rs.600 million out of their earnings." The Government has also pursued a policy of gradually paying off to the banks the debt provided by them to the public enterprises on its guarantee. For this purpose, necessary allocation has been made in the budget.

The fact that the performance of public enterprises is far below expectations is evident from the criticism from the Rastriya Panchayat (National Legislature) members, economists and research findings by a couple of research agencies. A number of reasons might be advanced for such a state of affairs, and one of the plausible causes is the pricing policy adopted by the enterprises.

The pricing of the products produced by the public sector enterprises is a controversial issue. In this regard, a number of theories and principles have been put forward by economists.

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But the management of public enterprises is often confused because the statutes governing them do not prescribe clear-cut guidelines for determining prices of their products. However, one thing is clear from the government declarations and instructions; that is, the enterprises should make profit for their expansion and dividends payments to the government. Thus, there is a need to review the various theories and principles of pricing and basis of price fixation with a view to examining the relevance of these theories in Nepalese context. It is also necessary to examine actual practices of pricing in Nepalese public enterprises. In this perspective we would like to see whether public sector manufacturing enterprises in Nepal have been able to generate surpluses, and to what extent pricing policy is responsible for surplus generated/deficit incurred by public enterprises. Specifically we would examine:

1. the profitability records of manufacturing public enterprises in Nepal; and,
2. pricing policies pursued by manufacturing public enterprises in actual practice and their effect on the profitability objective. This will be the central point of the study. It will concentrate on the evolving inter-relationship between pricing policy decisions and profit goal set by the government.

In the course of our analysis, we shall attempt to throw light on the following important policy questions:

1. To what extent pricing policy be deliberately adopted as means of generating resources for development?
2. Taking into consideration the objective of generating surpluses, are the existing pricing policies appropriate? If not, what policy(policies) is(are) appropriate?

3. To what extent should pricing decisions be left to public sector enterprises without any outside interference from the Government? If control and direction from any government quarter is necessary, to what extent and in what form?

Thus, the present study differs fundamentally from the earlier studies.

1.5 Definition, Scope and Methodology

Here in the subsequent sections, the words 'Public Enterprise', 'Public Corporation', 'Public Sector Enterprise', 'State Enterprise' and 'Government Enterprise' are taken as synonymous. Unless otherwise stated, they refer to the "manufacturing sector".

1.5.1 Definition

The United Nations Organization has defined public enterprises as "those organisations, namely governmental enterprises and public corporations which are entirely or mainly owned and/or controlled by the public authorities consisting of establishments which by virtue of their kind of activities, technology and mode of operation are classified as industries". However, in the Nepalese context, for the sake of convenience and practical utility, we shall adopt a slightly different criterion, which is discussed below.

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Public enterprise in Nepal is taken to mean an entity (i) which is fully or partly owned (minimum of 51 per cent of paid-up capital) 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, the Corporation Act, the Commercial Banking Act, or the Communication 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 an assumption that the organization should at least run at break-even point without incurring losses to obviate the need for government subsidies.

Under the above definition formulated by us, a mixed enterprise like the Raghupati Jute Mills Ltd., is taken as a public enterprise since the chief executive is directly appointed by the Government. On the other hand, the Nepal Bank Ltd., where also the government is a major shareholder is not included under the category of public enterprises because the government does not intervene directly in the appointment of the chief executive of the Bank. The definition also does not include the quasi-public enterprises. At the same time,

22 The term 'chief executive' stands for both the Executive Chairman-cum-General Manager as well as the General Manager. In the latter case, the Board is headed by a part-time Chairman.

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

24 It may be defined as an enterprise in which the government has minority interest and ownership is always less than 50 per cent of the total paid-up capital. The chief executive is also not appointed by the government.
the subsidiary public enterprises are also excluded from the study.\textsuperscript{25} Other organizations like Naatriya Samachar Samiti, Nepal Rehabilitation Company, Industrial Services Centre, Trade Promotion Centre, etc., which are constituted under the Development Board Act fall outside the scope of our definition\textsuperscript{26} and hence the study.

In Nepal, there are some departmentally run agencies or enterprises like postal services, production units under the Department of Cottage and Village Industry. These also do not fall under our definition.\textsuperscript{27} Nepal Rastra Bank, the Central Bank of the country, is also excluded from the study.\textsuperscript{28} Accordingly, as per our definition, the total number of public enterprises involved in economic activities in Nepal are forty-seven.\textsuperscript{29} However, as per the study conducted jointly by

\textsuperscript{25} 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 coming under our definition. In other words, subsidiary public enterprises are those which are subsidiary to holding public enterprises.

\textsuperscript{26} The institutions established under the Development Board Act are basically public institutions. These are not established with the commercial motive of making profit.

\textsuperscript{27} These are excluded because their cost accounting and financial statements are not separated from the parent administrative departments of HMG.

\textsuperscript{28} 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 here because of the nature of its functions and activities.

\textsuperscript{29} However, of late, eight rice exporting corporations have been dissolved by the Government bringing down the number to 39.
Corporation Coordination Council and Industrial Services Centre of His Majesty's Government, the number of public enterprises is sixty-one. Under their definition, they have included both the subsidiary as well as quasi-public enterprises. Similarly, the Auditor General in his annual report has also included under public enterprises, subsidiary public enterprises, quasi-public enterprises, the Central Bank of the country and some other public institutions. However, as mentioned earlier, any enterprise fully or partly owned, where the chief executive is nominated by the government, and which is incorporated either under the Special Charter, Nepal Company Act, the Corporation Act, the Commercial Banking Act, or Communication Corporation Act is taken as public enterprise for the present purpose, and under this definition there are at present thirty-nine enterprises.

The activities of the forty-seven public enterprises that fall within the purview of our definition are diverse, and hence are classified for our present purpose under seven major groupings based upon the nature of functions. (See: Appendix Table 1.) These enterprises are established either in the form of companies or corporations. The company form of organization has dominated the public enterprises in Nepal in


terms of number and there are twenty-eight such enterprises. The manufacturing enterprises are basically found in the company form. (See: Appendix Table 2.) Most of the enterprises are operating under monopolistic or oligopolistic market conditions.

In the present study we plan to undertake the study of the 'manufacturing sector' only. Out of the sixteen enterprises under this sector, one (Hetauda Cement Factory) is still under construction, and another—Nepal Sheeri Ghee Factory—is a very small unit. So, we have excluded these two enterprises from the study. Thus, the total number of industrial enterprises studied comes to fourteen.

1.5.2 Research Methodology

The purpose of this section is to outline the methods followed by us in the process of investigating the basic issue of pricing policy.

1.5.2.1 Research Design

The research design followed in this study is of exploratory type. The selection of this type of research design has become necessary keeping in view the quantity and quality of information that is available.

1.5.2.2 Sources of Data

This study is based on both the primary and secondary sources of data. Since the study is concerned with the pricing policy of the public manufacturing enterprises in Nepal in line with the goal already outlined, financial statements published by the companies from time to time, the plan documents, budget speeches, Auditor General's reports, economic survey reports,
legislature's reports, and other related available documents (both published and unpublished) containing actual policy statements, research reports, and enterprises' budgets, cost estimates, booklets, etc., and other secondary sources of information are the basic data source.

For the purpose of the present study we have also used the questionnaire techniques extensively. The questionnaires have been used to ascertain the bases for pricing adopted by manufacturing public enterprises, and to assess as to how far the particular pricing policy promoted the achievement of the desired goal. For the field investigation, each enterprise was visited personally, and discussions were held at various levels of management. Finally, the policy-makers, the chief executives, and other experts were also interviewed. For this purpose, four sets of questionnaire were circulated. The sets covered: (a) general information and data on establishment, objectives, capital, financial activities, capacity, production of products and by-products, financing, views regarding surplus generation, use of raw materials, sales and costs; (b) management control, relation with the government, incentives, etc., and pricing; (c) costing; and (d) personal opinions from chief executives of the public enterprise and experts. The questionnaires are appended at the end of the study.

A bibliography appended at the end would give a full idea of the sources consulted for this study.

1.6 Contribution of the Study

The literature on pricing policy of Nepalese public
enterprises is quite negligible. Moreover, the role of public enterprises is not clear because of lack of systematic pre-thinking on the part of planners and policy-makers. The present research will fill this gap, and will be a useful contribution to the limited literature in this area. Moreover, no study has so far been published on the lines of present research. The study will be the first of its kind on Nepal.

The main contribution of the present study lies in that it attempts at finding out how far manufacturing public enterprises have been successful as instruments for mobilizing resources in the form of ploughed back and distributed profits for investment in the economy and the pricing policies followed by these enterprises. This is necessary, keeping in mind the low taxable capacity of the people, increasing foreign debt burden, and above all, HMG’s commitment of a considerable part of foreign assistance, loans and also its own resources to the public enterprises. More than two-thirds of the capital funds of the manufacturing public enterprises for the period under study have been provided by HMG in the form of paid-up capital and capital subsidy. The studies undertaken earlier show that there is a very low level of self-financing and a substantial part of the capital has been eroded by the accumulated deficits of a number of enterprises. We have linked the financial performances of the manufacturing enterprises, in terms of rate of return, with the pricing policies. The original data we have collected through questionnaire such as on costs, details regarding what pricing policies have been adopted by
various enterprises, the arguments for and against public enterprises making profits, and management's views regarding making surpluses by public enterprises, provide useful information for further research.

1.7 Limitations of the Study

The following are the limitations of the present study:

1. The study is constrained by the absence of the required literature pertaining to public enterprises, particularly on pricing policies.

2. The study confines itself to only one major objective of public enterprises in Nepal, and other objectives are not explored. Moreover, it is extremely difficult, if not impossible, to quantify the other objectives. However, we have attempted to include other factors too, while outlining our suggestions.

3. Because of time and resource factors, the study is mainly confined to manufacturing public enterprises only.

1.8 Plan of the Study

Keeping the above objectives in mind, we plan to analyse the problem in the following manner:

In the present chapter we have traced the evolution of public enterprises since the initiation of planning process in Nepal, bringing out, in brief, the plan objectives, various industrial policies, reasons for establishing public enterprises, etc. A resume of the studies undertaken earlier, and a brief statement of objectives and research methodology used in the present study are also included. In this chapter, we define
public enterprises in Nepal for our study using the criteria of ownership of capital and appointment of chief executives.

After defining the scope and method of our study in Chapter I, we review, in Chapter II, the various issues dealing with the pricing theories and the bases of price fixation with a view to examining the relevance of these pricing theories in the Nepalese context. The pricing theories and bases include a discussion on marginal cost pricing, average cost pricing, break-even principle, cost-plus, import parity prices, discriminating prices, etc.

In Chapter III we examine the rationale and need for generation of surplus, and its relevance in the Nepalese context. Then, we analyse the financial data generated out of published information and official records with a view to finding out whether manufacturing public enterprises in Nepal have been successful in generating surpluses for dividend payment and expansion.

Chapter IV has been divided into two sections: (1) Ratio Analysis, and (2) Fund Flow Analysis. The analysis in the first section will take us to an examination of the general financial health of manufacturing public enterprises in terms of various ratios. In the latter section, the sources and uses of funds of public enterprises are studied to determine the extent to which enterprises have been able to finance their expansion and growth out of their internal resources.

The conclusions arrived at in Chapter III will lead us to an analysis of pricing policy of manufacturing public enterprises
in Nepal, and the price fixation mechanism in Chapter V. Here, we have traced out, in brief, the government's policy regarding public enterprise pricing under various plans, and government instructions, if any, in this regard, and the different sets of circumstances under which manufacturing public enterprises are operating for pricing purposes, such as enterprises under a system of direct or indirect price control and those selling their products in the domestic as well as international markets.

In Chapter V we have also outlined the existing pricing policies of manufacturing public enterprises in Nepal (based on our questionnaire), and their relation with revenue budgets, actual cost and price with a view to finding out whether the planned or desired pricing policy has been actually implemented in practice. We have analysed the relationship between pricing policy and market structure, and impact of the former on financial performance. A note on decision-making authority in regard to price fixation, and factors affecting the decisions are also added here. Finally, we have made an attempt to identifying some of the main reasons for the deviations between the planned pricing policies, and the actual ones followed in practice.

The final chapter summarizes the main conclusions that flow from the study of this subject in the earlier chapters, and offers suggestions for necessary action to improve the performance of public enterprises in Nepal.