CHAPTER I

INTRODUCTION

1.1 General Background:

Nepal is a small landlocked country situated between India in the east, south and west and China in the north. It has an area of about 147,181 square kilometers of which two-thirds is occupied by hills and mountains. Land covered by settlement and roads is about 0.7 percent of the total land area. Total population was estimated at 18,716,304 in 1970. The compound growth rate during 1989 and 1990 was 2.56 percent.

Physically, Nepal is a mountainous country with only about 23% plain lands. The physical structure can be divided into three regions: mountain, hills and terai regions. Administratively, Nepal is divided into five development regions, 14 zones and 75 districts.

Nepal's history of economic development is relatively short. Planned economic development started only since 1956 though an earlier attempt was made in 1948. Since then seven medium plans.
have been completed and the eighth plan is undergoing at present. Despite various efforts being put on to attain a faster growth rate, the average growth attained during the last decades amount to 35% per annum only.

Nepal's economy is characterized by subsidence structure, slow growth, poor resource base and widespread poverty and underemployment. With a per capita income of less than $180 in 1988, Nepal is classified one of the least developed economies even in the South Asain sector, which itself features as one of the most underdeveloped regions in the world. The country is heavily dependent on agricultural sector which contributes around 55% of gross domestic products and provides employment for 90% of the economically active population. The organized industrial sector contributes only about 4% of the gross domestic product. The GDP growth rate of 3.76% during the period 1974/75 – 1989/90 is only marginally higher than the population growth rate. The GDP per capita is estimated to have grown at an extremely low
rate of 0.1% only over the period 1965-1985 making Nepal the slowest growing economy in SAARC region. The period of 80/87 is generally considered as the period of high growth but even during this period per capita GNP recorded negative growth during 1988-1990 period making the overall scenario dismal and appalling.

The increasing role of public enterprises in developing countries is an accepted fact today. Since the great depression, it has virtually been accepted that the private sectors alone may not be able to work the way it was contemplated, even if maximum free play is allowed to them. PEs appear even in developed countries. In developing countries however PE is largely a necessity and not a matter of choice.

The relatively role of public enterprises in the process of Industrialization is different under different economic systems. Some of the underdeveloped countries believing in free enterprise envisage an economic future in which the role of government is strictly confined to the provision of infrastructure. The
government starts and runs such enterprises and at the end of a certain period these are handed over either fully or in parts to the private sector. The communist countries resort to exactly opposite course of action. The third group of countries like ours follow a middle way where private and public enterprises coexists to enhance public welfare by creating a society which is just democratic dynamic and exploitation free./1 The government has established in public sector a number of enterprises and institutions in various fields for a variety of purposes including defence, public utilities, basic industries, infrastructure, finance, reluctance of private sector, prevention and control of monopoly by few regional balance, equity, revenue generation and prevention of national heritage and culture.

The inquiry into the history of industrial development in Nepal reveals that the process started with the establishment of Biratnagar Jute Mill in 1936. Many industries were established during forties viz cotton textile units, sugar mills, match factories, cigarette factory etc. However, the enthusiasm did not last long and most of these industries failed due to lack of adequate market, heavy losses and many other reasons.

Not much development took place during the fifties except establishment of a few industrial districts and undertakings. The major tempo picked up with the public sector participating in industrial districts and undertakings. The major tempo picked up with the public sector participating in industrial promotion in a big way. In the early sixties, various industrial undertakings like sugar factory, cigarette factory, leather and shoe factory etc were established in the public sector. The subsequent plans also gave increasing priority to this sector and many new industrial ventures mainly in the consume goods sector came up. Despite continuous growth since then, organized industrial sector contributed only fractionally to economy. The contribution of
cottage and small scale industries is more prominent compared to those of organized sector. However, it is widely realized that industrial development is one of the primary requisites to develop economy as a whole. The government is trying to encourage private sector participation in a big way to attain the purpose and industrial policies have been formulated to this end. Besides, in many priority sectors, public sector itself intends to participate. Thus, the strategy is to increase the pace of industrial growth with the judicious participation of both the public and private sectors. Plans reveal that attempts are being made to create necessary industrial infrastructure too to create a sound platform for industrial development.

PEs have contributed through various means in the development process of the country. In the manufacturing sector, some of the largest industries with substantial share in total industrial activities are in the public sector. They have
contributed through import substitution, export promotion and strengthening the revenue generation of the country.\(^2\)

Today, it has been widely accepted fact that public sectors constitute an integral part of the total economic mechanism spreading development in the country. It is regarded as the dominant and formal sector being used as the instrument for attaining development goals.

The basic objectives of creating the manufacturing enterprises under government ownership is to enable them to

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assist in the national development program and other development oriented investment by earning profit

Manufacturing enterprises contribute to the national economy of a country by creating an industrial base. The contribution of manufacturing public sector enterprises is relatively high and shows a high potentiality. They contribute as both consumer goods industries and construction goods industries which can be regarded as priority industries.

3. CCC and Nepal Rastra Bank, Shree Pancha Ko Sharkar KO
   Rajashwoma Kehi Sansthan Ko Den, (Contribution of some PEs in the HMG Revenue Forward by N.L.Joshi), 2032
It is a well known fact that for the success of an enterprise we need a sound policy defining the objectives and goals of the enterprise. Institution development also plays a major role in the national development. The infrastructural development is also one of the most important asset for development. Our major concern is therefore to see how far Public Sector industries in Nepal have been successful in fulfilling the requisite for the development of Nepal.

1.2 Statement Of The Problem:

The Political base for the establishment of Public Enterprises in Nepal can be ascribed to the constitutional arrangement for mixed economy system whereby public and private sectors coexists to enhance public welfare by creating a society which is just, dynamic democratic and exploitation free.

Nepal in her pursuit for development, has basically embarked
upon PEs for development in service as well as productive sectors. Lack of industrialization on the one hand and the stagnatory private sector enterprises on the other contributed to its growth in a big way./4

The role and scope of public enterprises in Nepal have expanded considerably. Dissemination of some government departmental activities and special characteristics of foreign aided projects further aided the growth of PEs in the country. The number of public enterprise have grown from a mere one at the end of the first plan to sixty nine till today.

Since PEs are considered an integral part for the industrial development of a country the problem of our study can be stated as follows:-

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4 Bajracharya Pahar, Management Problems in Public Sector

Manufacturing Enterprises in Nepal, CEDA, July 1983, pp3
a. PE play an active role in augmenting the national economic and social development activities on the basis of mixed economy, in which the private sector alone may not be able to perform wholly. The main aim is to establish a society which is democratic, just, dynamic and free from exploitation.

Is the role of Public Sectors in Nepal satisfactory?

b. The main purpose aimed at the growth of PEs is to initiate and assist development and secure external returns as against their own profits. PEs themselves perform developmental activities and help in their acceleration in order to achieve the desired economic growth.

Is it true in Nepal's context?
c. PEs have grown as one of the principal contributors to government revenue. These contributions can be regarded as very helpful means in the process of development. PEs contribute to the national treasury through various means.

How much contributions have PEs in Nepal really made?

d. One of the most prominent contributions of PEs is in respect of employment generation. PEs have continued to prove lucid agents generating employment opportunities to the educated offsprings every year.

How much employment has PEs in Nepal really generated?

e. PEs have specific roles and motives all of which private sector is not known to contribute properly. PE has greater public interest orientation as against the logic of profit which is the distinguishing feature of private
enterprise. The private sector is essentially a business proposition in which public purpose finds a subsidiary or peripheral position and in no case supersedes business considerations. In PE, non-commercial aspect can well precede, supersede and even completely engulf business considerations.

Has PEs in Nepal succeeded in this motive?

1.3 Objective Of The Study:

In order to accomplish the objective of making an analytical study of the role of PEs in Industrial development the following objectives have been outlined:

a. Identify the existing areas of operation, role and contributions of Public Enterprise.
b. Evaluate the foundation created by Public Enterprises.

c. Measure the contributions in overall economy through evaluation of performance of Industrial Public Enterprises.

d. Suggest measures for development.

1.4 Scope Of Study:

The present study attempts to analyze the role of public enterprise in the industrial development of Nepal. The term "Public Enterprise" used in our study include those infrastructural, industrial, agricultural, financial and commercial undertakings where the state generally retains the
majority interest in share holdings i.e. 50% or more. The study is confined to manufacturing public enterprises only. The analysis has been carried out from the fiscal year 1981-82 to 1990-91.

1.5 Methodology:

The methodology used in this study is discussed in this section. Exploratory and analytical research designs will be used as a broad framework. The study will be based on both survey and desk research with an emphasis on the former.

1.5.1 Nature and Sources of Data:

Mostly secondary data have been used. The sources of secondary data and information are:
a. Official records, publication, annual reports, financial statement and other published and unpublished materials of the enterprises.

b. Reports and studies pertaining to concerned industries brought out by Corporation Coordination Division, Ministry of Finance and other government agencies and national and international industries.

c. Published reports like industrial review reports, Industrial profiles, profiles of industrial districts and other documents.

d. Records and reports of the Department of Industry, Industrial Services Centre (ISC), Corporation Coordination Division (CCD) of Ministry of Finance, HMG/N.

e. Various miscellaneous publications, books, newspapers and reports etc.
1.5.2 Population and Sample Size:

There are 63 Public enterprises in Nepal. Out of them 46 are operating at present. Out of these 22 are in the manufacturing sector. For the purpose of in depth study 7 such enterprises will be selected. The present study will be confined to four industries: cigarette, sugar, textile and cement with referential mention of liquor and spirits. The criteria for our selection was (i) relatively large size of operation (ii) similar product industries. The sample size comes out be 11.11 per cent of the total public enterprises and 32.22 per cent of the manufacturing public sector enterprises. The largest enterprises have been selected as stated in this criteria.
1.5.3 Sample Enterprises:

On the basis of above mentioned sampling procedure following enterprises have been selected.

Table 1: Sample Size

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>ENTERPRISE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarette</td>
<td>1. Janakpur Cigarette Factory (JCF)</td>
</tr>
<tr>
<td>Textile</td>
<td>2. Hetauda Textile Ltd. (HTL)</td>
</tr>
<tr>
<td></td>
<td>3. Balaju Kapadha Udyog (BKU)</td>
</tr>
<tr>
<td>Sugar</td>
<td>4. Birgunj Sugar Factory (BSF)</td>
</tr>
<tr>
<td></td>
<td>5. Lumbini Sugar Factory (LSF)</td>
</tr>
<tr>
<td>Cement</td>
<td>6. Himal Cement Factory (HCF)</td>
</tr>
<tr>
<td></td>
<td>7. Hetauda Cement Factory (HETC)</td>
</tr>
</tbody>
</table>
1.5.4 Data presentation and Analysis:

The data are tabulated in time series form showing annual rate of percentage change (ARPC) and index. Besides, according to these, various other ratios are also included in the tables.

1.5.5 Techniques Used:

While analyzing, first of all the existing situation will be presented on the basis of the information and they are further assessed with the help of necessary information. Various financial analysis used are stated below:

a. Net Profit on Sales = \( \frac{\text{Net Profit}}{\text{Sales}} \times 100 \)
   
   It measures net profit as a percentage of sales.

b. Return on Investment = \( \frac{\text{Net profit}}{\text{Net Investment}} \times 100 \)
   
   It measures net profit as a percentage of investment.
c. Return on Assets = \( \frac{\text{Net profit}}{\text{Total Assets}} \times 100 \)

It measures net profit as a percentage of total assets.

d. Total Assets Turnover = \( \frac{\text{Total sales}}{\text{Total Assets}} \times 100 \)

It measures the total sales as a percentage of total assets.

e. Fixed Assets Turnover = \( \frac{\text{Total sales}}{\text{Fixed Assets}} \times 100 \)

It measures the total sales as a percentage of fixed assets.

1.3.6 Limitation of the Study:

This study has been carried out with the following limitations:
a. First of all, there is a severe limitation of data and information. Management information system is still at a poor stage in Nepal and data and information are more difficult to obtain. Lack of data and information for the defined period have also hindered in maintaining consistency.

b. Only limited studies and surveys are made. This also is a major drawback to conduct generalized studies of the present nature.

c. There are some imbalances in the availability of data and information.

2.5.7 Abbreviations Used:

The following abbreviations are used in the present study:

1. ARFC - Annual Rate of Percentage Change
2. BKU' - Balaju Kapadha Udyog,
3. BSF - Birgunj Sugar Factory,
4. CCC - Corporation Co-ordination Council
5. CCD - Corporation Co-ordination Division
6. EP - Employee Productivity
7. FAT - Fixed Assets Turnover Ratio,
8. FY - Fiscal Year,
9. HC - Himal Cement Factory,
10. HETC - Hetauda Cement Factory,
11. HMG/N - His Majesty's Government of Nepal
12. HTL - Hetauda Textile Industries Limited,
13. ISC - Industrial Services Centre
14. JCF - Jankpur Cigarette Factory,
15. LP - Labour Productivity
16. LSF - Lumbini Sugar Factory,
17. MPHBS - Multi-Purpose Household Budget Survey
18. NCC - Nepal Chamber of Commerce
19. NI - Net Investment
20. NIDC - Nepal Industrial Development Corporation
21. NP - Net Profit
23. NPC  - National Planning Commission, Nepal
24. OECD - Organization for Economic Cooperation
25. PCU  - Percentage Capacity Utilization
26. PE   - Public Enterprise
27. ROC  - Return on Capital
28. ROI  - Return on Investment
29. ROS  - Return on Sales
30. Rs   - Rupees (Nepali)
31. TAT  - Total Assets Turnover Ratio
32. UN   - United Nations
33. UNIDO - United Nations Industrial Development Organization
34. US$  - United States Dollar

1.7 Review Of Literature:

Various Studies have been conducted in the area of Public Enterprises (PEs) in Nepal. A few generalized studies have been
made by Industrial Services Centre and Corporation Coordination Council regarding the overall performance and management of public sector enterprise in Nepal. This study basically aims at evaluating the micro and macro level performance of public enterprises in Nepal. The study tries to evaluate the performance using various indicators and also finds out the overall macro level contributions of PEs in Nepal. The managerial analysis of these enterprises showed that the existing management structure has not been efficient enough and the study revealed various weaknesses in manning and organizing top management structure. Besides, the study also included analysis in various functional areas including marketing management in which respect it concluded that public enterprises have only been functioning in

selling and buying rather than the marketing in true sense. The performance review of public enterprises in Nepal by CCD 6/ further adds in total evaluation of different enterprises. This study was aimed to assess total performance.

A study made by Centre for Economic Development and Administration lays emphasis on identifying managerial problems prevalent in PEs of Nepal. Various performance indicators have been used to point out the present state of affairs of manufacturing PEs in Nepal.

Bajracharya 7/ tried to make strategic evaluation regarding the managerial structure, pattern and procedures. This study


7. Bajracharya, Pushkar, Management Problems in Public Sector Manufacturing Enterprises of Nepal, Kathmandu, CEDA.
confines to public sector organisations and is limited to identifying managerial problems only.

Bajracharya 8/ made a study on marketing practices in Nepalese enterprises. The researcher attempted to analyze various marketing activities undertaken by Nepalese public and private enterprises. The study based totally on primary information, showed that the existing marketing practice followed by both the sectors is only moderately satisfactory and both sectors do not seem to have given necessary attention towards these sectors. This study, however, is not comprehensive.

Shree Krishna Shrestha 9/ conducted a study relating managerial styles with effectiveness of PEs in Nepal for dissertation leading to his Ph. D. Degree. This study encompassed ten PEs of Nepal and evaluating the performance while simultaneously determining the Managerial Styles.

The World Bank 10/ has also recently conducted a study, evaluating the performance of Nepalese PEs. The Bank has come up with excellent suggestions.


perspective when the clamour for privatization is increasing every day. This study therefore attempts to assess the role of PEs in Manufacturing Enterprises of Nepal.

1.8 Conclusions:

It is a well established fact that the role of PEs in the developing countries is very vital. The present study will be conducted to identify the role and contributions of PEs in Nepal. For this seven industries were selected. Secondary data will be used in these studies. A series of financial analysis techniques and indicators will be used to evaluate contributions and performances and determine the factors affecting the success of an enterprise. Hence it is expected that on this basis of the said methodology the objective of the study can be attained.