CHAPTER III

INDUSTRIALISATION IN NEPAL

3.1 Introduction:

It is an undisputable fact that industrialisation plays a very crucial role in the process of economic development of a country. A country which is heavily dependent on agriculture, to the neglect of its industrial development cannot achieve a high level of economic development. It is now unanimous, believed that economic development entails a balanced development of both agriculture and industry.

Industrialisation is a key factor in the economic development of Nepal. When promoted on efficient lines, it can hold out prospects of abundance of manufactured goods, increased employment, fuller utilization of natural, human and capital resources of the country, improved balance of payments and above all, greater efficiency and modernization throughout the economy. Industrialization is one of the more powerful means of reducing the growing gap between the rich and the poor. But the least developed countries including Nepal are experiencing many problems of industrialisation such as the small size of the market, the traditional agricultural sector, deficiency in infrastructure, lack of capital, unawareness of the potential and
so on. Industrialization in Nepal is to be looked upon neither as just the building up of a new branch of production in the national economy nor as the mere introduction of technology but as a fundamental change affecting social and economic growth. This is possible as the best prospects for Nepal's industrialization lie in fostering agro-based small-scale industries and cottage industries. This requires boosting up of local entrepreneurship so that the products of such enterprises are adequate for home consumption to the extent they are needed. They can further act as feeders to large complexes and for export refinement.

Nepal has resorted to national economic planning in order to provide a sense of direction to its development efforts. However, the achievement of planned targets has been constrained by critical gaps in the implementation process. It is pointed out that planning in Nepal has very little to do with anything that happens in reality because of unavailability of sufficient information and funds, inability to programme foreign aid, and severely limited capacity to administer development. Similarly, with respect to the operation of large-scale industries in Nepal, most of them
have no annual plans and production targets for which the management can be held responsible. Because of the inefficient use of their resources, the net results has been poor service and costly product to the consumer.

Looking at the agriculture sector, this sector is already overburdened with unbearable pressure of population. Some alternatives to agriculture have to be developed to relieve pressure on land. It is estimated that as much as 40% of the people are under-employed. Therefore, any further pressure will only invite further poverty. Industrialisation is therefore necessary for an underdeveloped country to provide employment for an under utilised labour force now bottled up in agriculture and loosely organised sectors to non-agricultural pursuits. As a UNICEF report observes "the reason for emphasizing industrialisation is that industrial development would absorb rural underdeveloped persons into those fields of production where higher productivity is possible without reducing total agricultural output." /25

In this chapter we will be discussing the growth of industries, role of public/private enterprises, etc in Nepal.

3.2 Growth and Development:

The scenario in the industrialisation arena is hardly encouraging. Nepal pursued the path of industrial development only belatedly. Industrial development in the country began just before and during the second world war period. Though the then Rana regime gave some attention towards creating an industrial bases, it lacked continuity and proper strategic approach. The process was revitalised only after 1961. In the history of Nepalese industrialisation the period of (1936-1950) can be taken as a period of substantial achievement. Many well known authors, however, opine that industrial development in Nepal took place only after 1956 or 1961. Dr Pant asserts its development only after 1956 since the launching of the first plan. Similarly, Mahesh Banskota also attributes industrial development only after 1956 as prior to this period
some growth of the industrial sector has resulted on account of temporary stimulants such as scarcity condition created by the Second World War. Dr. Lohani agrees that industrial development took place since 1935. He however, asserts that industrialisation was never an objective of ruling Rana family. However Bajracharya and Agrawal asserts that there has been some definite efforts towards industrialisation during the Rana period, which, however could not be sustained due to eco-political chaos and other reasons and a period of gap existed in the efforts for industrialisation and subsequently picked up only after 1961 with greater vigour and direction.

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According to K.B. Adhikari "There have been handicap and cottage industries in Nepal since ancient time but the

development of modern industries is of recent origin. Indeed it was only after 1937 that institutionalisation of Nepal industries began with the establishment of a few medium scale industries. Nepal's first joint stock enterprise was a jute mill established in Biratnagar in 1936. Biratnagar jute mill was followed by establishment of a number of industries, particularly in the field of textiles, sugar, matches, cigarettes, hydro-electric power, rice and oil mills. By 1945 some twenty joint stock companies, small and big had been incorporated. Most of the industries at that time were established as public limited companies and in private sector. /27

Let us look briefly at the growth and development of industries during the different period and plans.

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27. Agarwal Jagdish, Bajracharya Puskar, Industrialisation During the Rana Regime , pp 88
3.2.1 Growth of Industrial Sector till 1950-51:

The growth and development of industries in Nepal can be traced to some thirteen or fourteen hundred years ago when Nepal was ruled by Licchhavi kings. Nepal was then, as now, a predominantly agricultural country. Agricultural lands were therefore the most important resource. But due to inadequate facilities for agricultural development and certain other factors like difficult geographical location, a part of the population was bound to follow activities other than agriculture. During Lichhavi period, the significant role played by trade and industry in the national economy becomes clear from the protection and prestige given to businessmen in those days. In and around the seventh century (639 A.D.), the opening of the Banepa-Kuti trade route highly encouraged Nepal-Tibet trade which, in turn, also encouraged cottage type of industries. All these show that the Lichhavi kings tried to promote export-oriented industries. These included cotton and woolen clothes, paper, foodgrains, copper and iron, wooden
carved works, statues etc. Later, His Majesty the late King Prithivi Naryan Shah also emphasized the growth and development of cottage and rural industries. The then Indian learned man Kautilya and the Chinese learned man Hieun-Tsang also described the development of cottage industries in Nepal. This is to state that the evolution of crafts and small scale industries in Nepal is perhaps as old as the growth of Kirati civilisation whose origin may be traced back to many centuries before the Christian era. /28

It was only in 1935 that a development agency was constituted under the name of 'Udyog Parishad' (Development Board), the primary function of which was stated to be one of helping in various ways the growth and expansion of agricultural, industrial and commercial activities in the

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28. Sharma, B.C., Nepalko Aitihasik Rooprekha, pp303
country. The development board was soon followed by the establishment of various other development agencies. Some of these specialised agencies were Krishi Parishad, Khanni Adda, Nepal Kapadha Ra Gharelu Illam Parachar Adda and so on. But the achievements of the boards were negligible. Therefore industrial development as such could not take place. In order to create the industrial environment in the country, the Nepal Company Act came into force in 1936 and in turn, the Biratnagar Jute Mill was established and a commercial bank, Nepal Bank Ltd., was also incorporated in 1937. Thus the industrial history of Nepal begins after 1936 when the medium-sized jute mill was established in Biratnagar with a paid up capital of Rs 800,000. This was Nepal's first joint stock enterprise which has now become the oldest and largest enterprise. The establishment of this enterprise can be

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considered a landmark in the history of industrial development in Nepal because soon after the establishment of Biratnagar Jute Mill, other industries were also established; for example sugar mills, rice mills and oil mills. /30 The trend continued up to 1945 by incorporating some 20 joint stock companies. The period of World War II became vital factor for boosting the development of these industries. Especially the war-time inflation raised so much enthusiasm among the enterprising persons that there was an unprecedented growth in the formulation of companies one after another, eg Morang Sugar Mill, and Morang Cotton Mill in 1946 and so on. /31

The profits earned by Biratnagar Jute Mill, the post-war inflationary situation and the world market trend encouraged businessmen from India to establish another jute mill and as a

30. Pant, Bed Raj, *Arthik Bikashma Sangathanatmak Prabhav,* Kehi Ghatna Ek Bibechana, pp45

result the Ragupati Jute Mill was established in 1948. In this way industrial enterprises were established one after another. It is also due to the general scarcity of industrial goods in India which permitted highly profitable industrial ventures to emerge both in India and in Nepal. The immediate success of jute mills inspired the confidence of the people in joint stock enterprises so much so that within a couple of years or so, many new joint stock companies were floated, out of which the Juddha Match Factory, Birgunj was the most successful.

Two cotton mills came into existence simultaneously in 1942 because imports were seriously hampered. One was floated in Morang and another was incorporated in Birgunj.

In between 1936-51, it is stated that altogether 65 companies were registered. Most of these industries were agro-based industries. Again among these industries, most of them

were rice and oil mills. All the companies established during the period 1939-1951 could not survive. The Birgunj Cotton Mill faced recurrent losses after the close of the war when the market situation became normal. The mill was then wound up. Similarly the Plywood and Bobbin Factory set up in 1943 was closed down in 1952 for want of raw materials and funds for operating capital. During the period 1939-51, it is estimated that some nine companies failed.

3.2.2 Industrial Development from 1951-1956:

The number of industries established during the period 1951-56 is not available. Only six companies were registered during this period. Therefore this period was marked by a slow growth of industries. By 1955-56, out of 68 companies registered, 24 were dissolved, 13 went in liquidation, 15 reported operations at a loss and a few apparently showed success. /33 From this it becomes clear that industrial development during this period was neither smooth nor steady.

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Even after the dawn of democracy, no planned efforts were made to establish new industries or to develop and modernise the existing industries. There had not been much progress on the industrial front before 1956 as the period 1951-56 is looked upon as an interim period. The country had to struggle during this period to achieve stability in the political system and to make plans and programmes for development. /34

3.2.3 Growth during the First Plan (1956-57 to 1960-61):

Nepal started the process of planned industrialization with the launching of the First Plan (1956-57 to 1960-61). The central purpose of the First Plan programme was to raise production, employment, standards of living and general well-being of the people throughout the country. In view of the decaying condition of the existing industries, the first plan envisaged a programme for their revival and expansion. During

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34. Pradhan, Radhe S., *Industrialization In Nepal*, pp53
this period NIDC (Nepal Industrial Development Corporation) was established. Based on the Industrial Study Committee, jute mills were given financial help. Similarly industries like match, sugar, cigarette etc were developed and modernised.

3.2.4 Growth During the Second Plan (1962-62 to 1964-65):

It is stated that during the second Plan (1962-63 to 1964-65), achievements in the private sector were remarkable with the establishment of industries like sugar, metal, crafts, hotels, matches, textiles, catechu, biscuits and confectioneries, rolling mills etc. In the public sectors, industries commissioned were the Janakpur Cigarette Factory and Birgunj Sugar Factory. Cement and paper industries were also planned to be started and foreign assistance. A tannery and shoe factory in Kathmandu were completed ahead of schedule. In the public sector a total of 11 public
enterprises were to be incorporated during the Second Plan. Out of them 3 were manufacturing industries. It is hoped that the establishment of these industries would take Nepal to the group of large-scale industries. Against these targets, the construction of the first phase work of the Balaju and Patan Industrial Estates was completed and the construction work for another Industrial states in Hetauda started. Despite various efforts at industrial development, the Second Plan also did not accomplish much success.

3.2.5 Growth During the Third Plan (1962-64 to 1964-65):

The Third Plan emphasized the industrial development more in the private sector because of the interest taken by private industrial entrepreneurs during the second Plan period. The industrial objectives of the plan were: increasing industrial production by proper utilisation of available capacity, promoting industries by daily necessities, promoting industries of daily necessities, promoting export-oriented
industries and emphasizing industries using locally available materials and industries that produce basic materials for development. /35

During the Third Plan period, an Industrial Promotion and Productivity Centre was established on 15th July 1966. It was a joint project of NIDC and HMG/N and had to act as an agency for providing technical assistance including, training, industrial information etc and appraising industrial projects suitable for the country. /36

35. ISC, Development of an Institutional Infrastructures for Industry in Nepal, 1977, pp334

As against the targets of setting up a number of industries falling under priority lists viz., sugar, plywood, paper, soap and paint in the private sector, nothing was done except completion of the preliminary work for establishing a cement factory in Kathmandu and a cotton textile factory in Bhairahawa. Again the industries that had not been planned had been established and registered e.g., stainless steel and nylon buttons. The faulty planning and implementation of industrial policy of Nepal is evident from the fact that the Third Plan priorities were to set up industries utilising local materials, while industry established was stainless steel. /37 This shows lack of foresight while establishing targets of setting up industries. It is interesting to note that the output level of industries at the end of the third Plan was below the pre-plan level. The industrial policy was formulated and came into force for the industrial development but it was not implemented successfully. There were about 994 firms registered during the Third Plan Period.

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37. Lohani, Prakash Chandra, Nepalko Audyogik Sthiti, pp5-9
3.2.6 Growth During the Fourth Plan (1970-71 to 1974-75):

The aim of the Fourth Plan (1970-71 to 1974-75) was to play a constructive role in the industrial development of Nepal. The public sector was to give a kind of leadership in the development of industries in Nepal in the Fourth Plan. It is felt that the private sector cannot setup all basic and feasible industries capable of making special contribution to the industrial development of the country. The government itself attempted to establish paper, fertilizer and cement industries with the aim of gradually selling them to the private sector in the future. It also attempted to establish other industries which could not attract investment from the private sector despite several incentives and facilities provided to them.

In the Fourth Plan, with a view to formulating concrete programmes for industrial development, HMG/N had categorised industries as shown below:
Group A

a. Import-substituting industries
b. Export-promoting industries
c. Basic industries using local materials

Group B
d. Hotel industry

Group C
e. Agro-based industries
f. Forest-based industries
g. Mining-based industries

During the Fourth Plan period, 26 licences were issued to establish import-substituting industries; 7 licences to export promoting industries; 12 licences to basic industries; 70 licences to hotels; 85 licences to agro-based industries; 3
licences to forest-based industries; and 2 licences to mining-based industries. /38 In this way 205 licences were issued. Because of the several steps taken many new industries were set up and the production of many existing industries increased.

The Fourth Plan emphasized the need to provide encouragement to the establishment of industries in the private sector. But the emphasis in the second year of the plan shifted more to the public sector industries. The plan tried to encourage the establishment of industries in the private sector, the achievement in this direction was not what it ought to have been. The public version in this regard was that entrepreneurs were guided much by a kind of selfish

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motive of earning quick profits. But the entrepreneurs' version was that the government had not created the appropriate atmosphere for investment in industries. Thus, there had been a tendency to blame one another rather than to undertake solid measures to bridge the gap and remedy the situation.

The degree of emphasis placed on industrialization by HMG/N can be sensed by perusal of plan documents. In every plan, the word industrialization has been mentioned very frequently. In order to make the Fifth Plan (1975-76 to 1979-80) as objective as possible, it had envisaged two sets of programmes—Minimum Programme and Maximum Programme. A minimum of Rs 179.89 crores out of Rs 919.70 crores to be spent for industry, commerce and power. Similarly, the maximum programme included Rs 204.04 crores out of Rs 114.04 crores to be spent for industry, commerce and power. /38

38. NPC, HMG/N, The Fifth Plan (1975-80) in Brief, pp. 24-25
3.2.7 Growth during the Fifth Plan (1975-76 to 1979-80):

The Fifth Plan document emphasized that the industrial sector had to be expanded in order gradually to make the Nepalese economy self-reliant. Nepalese economy had been largely dependent on imports of even daily consumption goods and development materials. The fifth plan also aimed at creating employment opportunities for the growing labour force in the non-agricultural sector. The Industrial policy made clear that the industries concerning defence and social overhead sector shall be owned by public sector, whereas the other industries shall be vested in the public, private or joint investment sectors ownership of the other industries. Emphasis was also given to reduce regional imbalances and to diversify industrial establishments in different geographical regions. Investment in less developed regions was to be made more attractive by granting the industries some preferential facilities. Throughout the plan period, preferences was to be given to labour-intensive industries. Besides, provision was made for giving priority to small and medium-scale industries.
Though there were no programmes to increase the production capacity of the public sector industries, old machinery and parts of these industries were planned to be replaced and some machines were to be added in order to improve their production capacity. The incomplete programmes of capacity extension initiated in the Fourth Plan were also to be completed. Industries completed in the Fifth Plan mainly included cotton textile, agricultural and industrial lime, vegetable ghee, brick factory, vegetable oil and so on. So far as new industries to be established were concerned, these included rosin and turpentine, magnesite, brick and fertilizer, paper and pulp, and cement.

In the private sector, the Fifth Plan was to emphasize the establishment of new industries, capacity expansion or full rated capacity utilization of existing industries and re-operation of closed industries. A list of 127 probable industries to be established in the private sector was prepared.

It is not known how many total industrial establishments were established during the Fifth Plan period but the
establishment increased from 2434 in 1972-73 to 3570 in 1977-78. On the average the number of establishments increased at the rate of 227 per annum over a period of six years (1972-73 to 1977-78).

3.2.8 Growth during the Sixth Plan (1980-81 to 1984-85):

The Sixth Plan also put emphasis on industrial development as in the previous plans. The objective of the industrial development during the Sixth Plan was to create a favourable environment to attract industrial investment enabling the transfer of unemployed or underemployed agricultural workers to the industrial sector; to create an industrial base for utilising local capital, labour, technology and raw materials; and to develop the export-promoting and import-substituting industries producing essential consumer and basic goods. /39

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39. NPC, HMG/N, The Sixth Plan (1980-81 to 1984-85), pp. 4
In this plan period only the establishment of Hetaula Cement Factory was completed and the production also started. However the overall establishment and expansion of other industries was not very satisfactory.

Although private industries were encouraged yet there was not much development in this area because the facilities were not developed for their establishments.

During this plan period 1413 small industries were established and 13678 persons received employment. In the cottage industries too there was plan to train 28950 persons under various programmes however only 27140 persons could be trained.

3.2.9 Growth during the Seventh Plan (1985-86 to 1989-90):

During the Seventh Plan (1985-86 to 1989-90) emphasis was given to the development and expansion of industries to fulfil the basic needs of the people and to increase the national
production. Emphasis was also given to expand the cottage industries, export promotion of the industrial items and increase employment opportunities.

The policy was to introduce new industries which would have positive effect on national production. The aim was also to encourage the already established industries to make optimum capacity utilization. Private sectors were encouraged in all fields except defence related ones. Foreign promoters were also encouraged. The industries related to exports, consumer goods, development and construction goods was also given protection. Projects were also established to develop the raw materials.

Most industries could not reach the target in their production. The employee and labour productivity could not increase satisfactorily. However the consumer goods related industries had given satisfactory results and contributed in earning foreign currencies by exporting garments and woolen carpets. The development and expansion of industrial districts could not take place as expected. The policy of privatization
also did not receive much success. Satisfactory results were obtained in the development of raw materials especially in leather and tobacco. Another contribution of this plan in the growth of industries were the survey of cottage industries, preparation and distribution of the scheme of cottage industries, skill labour and trainings.

During this period the industrial development was very slow. Although emphasis was given to the expansion of industries and help in the economic development but the atmosphere for industrialization could not be created. Only about 832 small and cottage industries were established by the end of the plan.

3.2.10 Growth during the period 1990-91 to 1991-92 :

The FY 1990/91 has been remarkable for Nepal. While in political term, a democratic government was installed after 32
years following general election based on adult franchise, there has been a new vigour in the economy particularly in the non-agricultural sector with increased industrial production and resumption of economic activities in trade and construction including that in the financial sector. This period was an interim period before the launching of the Eighth Plan. In this period there was no mandate for the interim Government to determine and decide on policy issues concerning the programmes of long term nature. Rather the need was to help the democratic government to be formed after the general election in this respect by reviewing the past governments plans and policies and making necessary reforms while eliminating apparent distortions.

However during this period 287 industrial units were under operation in 11 industrial districts, but 38 industrial units have been closed for various reasons. Also during this period 234 licenses were issued for small scale industries, 26 for medium scale industries and 14 for large scale industries.
3.2.11 Growth during the Eighth Plan (1992-93 to 1996-97):

The eighth current plan aims at creating additional income and employment opportunities by developing interrelationship between production oriented industries and other economic activities of the country. It also aims at improving the exporting goods as a medium of earning foreign currency by increasing its production, productivity and quality. In order to fulfil the domestic needs there are plans to promote large, medium, cottage and small scale industries. The national production will also be increased by developing the industries based on present mineral resources. This plan stresses the need for the transfer of government owned industries to private ownership. Foreign investments will be promoted to make maximum utilization of foreign capital, modern technology, management and technical know how. Environmental pollution control law rules and guidance will also be prepared and implemented while establishing and extending the industries to minimize their effects on environment. The plan will concentrate on creating a regional balance within the industries by providing financial benefits and facilities.
3.3 Present State:

Most of the industries established in the organised sector constitute consumer goods industries with some construction goods industries coming up recently. Major consumer goods industries include textiles, sugar, food processing, shoes, liquor and beer, cigarettes, biscuits, tea, stainless steel utensils etc. Construction goods industries include cement, ply wood, iron goods, bricks and tiles. Other industries include jute goods, agriculture tools and leather.

A country's level of economic development is reflected in the progress made in the industrial sector. Satisfactory economic prosperity cannot be achieved without industrialisation. The overall industrial development is expected to create a climate conducive for economic development. /40

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The underdeveloped countries suffer from an acute shortage of capital. In view of shortage of capital, the private sector is unlikely to be able to make sufficient industrial investment even if industrialisation were left with the private sector. The public sector is therefore assigned a supplementary role in the scheme of industrialisation. The public sector is better position so far as mobilisation of resources for industrial investment is concerned. Resources allocation to the priority sectors can be better affected by public sectors.

Despite various policies and programmes of the government to create industrial awareness in the country, the climate for industrial development has not been congenial. The industrial policy, laws and by-laws have shortcomings in its provision of proper guidelines. Industries which have not created employment or generated income and had no direct relation with the national requirements, were promoted. Industries that can
utilize domestic raw materials and domestic labourers can have more value added in the economy. Vague provisions in the industrial laws and by-laws and non-classification of industrial incentives have not contributed much to the establishment of new industries.

3.4 Role Of Industrial Sectors:

The increasing importance attached to the public sector in the process of industrialisation in recent years is the outcome of several factors. Industrialisation is also possible through the private sector. In fact the industrialised countries of the west have attained the present high level of industrialisation mostly, if not solely, through the private sector. However, in case of the underdeveloped countries which have accepted growth with justice as major objective of their
economic policy, industrialisation through an exclusive or even major reliance on the private sector is incompatible with the objective of their economic policy. Therefore, for ensuring social justice the public sector has been assigned a very important role in underdeveloped countries.

Dr I.M.D. Little has drawn attention to the different roles played by private corporations and by nationalised industries in generating savings in the U.K. in the following words

"...private corporations save more than they invest in addition to which they make a profit and pay tax on them, which is also a contribution to governmental savings. The nationalised industries do not save at all, in fact they probably dissave although not supposed to do so. At the same time they are very heavy investors." /42

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42. Ray H.N., Public Enterprises in India - Strategy, Objective and Control, pp27
The public sector was originally envisaged as a countervailing force to private monopoly but now the opposite is being suggested, the private sector is emerging as a countervailing force to public sector. Now the role of public sector has changed to that of making contribution to maximising private capitalist accumulation. The public sector financial institutions are playing the role of mobilising funds for being invested in private sector.

The public sector is losing its importance, the fault is not as much of its management, as of those who wield political power and who are deviating from the original objective for which public sector was built.

Public sector has played a crucial role in industrial development. But for public sector the basic and heavy industries would not have emerged on world map as an industrial power.

All public sector undertakings are not expected to show profits, some are promotional and developmental in nature. A private sector is mainly concerned with private benefits which
may be increased by imposing high social cost, like environmental pollution, evasion of taxes, producing non-essential goods by not adhering to plan priorities. It does not have social obligations. It may show high profit by adopting a number of fraudulent practices.

Public sector enterprises should not be set up or encouraged merely for the sake of expanding public sector. Wherever private enterprises are forthcoming without coming in conflict with socio-economic objective of state, there is no need for the Government to enter into business.

An important rationale of public sector is to narrow down regional disparities and to achieve balanced economic growth of entire nation and thereby, to lay down foundation for building up harmonious superstructure. As for a rationale of public sector in developing infrastructure is connected there can be no doubt, no debate. Certainly public sector requires change in its modus operandi, but the causes of welfare, regional and sectoral balance are in the hands of public sector.
The general public in the country have, by now, come to realise that, if an underdeveloped country wants to lay sound foundations of economic growth and consequently, increase the aggregate national wealth, national income and per capita income, it has no other alternative but to assign an important role for public enterprise in its overall developmental strategy.

Public enterprises is expected to be the principal agent for rapid economic and social transformation, by developing infrastructure and the core sector and closing the gaps in the industrial structure. Its dominant position in the financial field is intended to control and guide the private sector, wherever necessary. It is also likely to stop in, if and when private enterprise fails the economy. And the economic growth via PE will be adequately leavened with social justice. /43

43. Narain Laxmi, Principles And Practice Of Public Enterprise Management, pp49
If the economy was to progress fast, there was no option for the government but to go itself ahead for this purpose. The emphasis of the government has, therefore, been to establish basic and strategic industries or those in the nature of public utility service.

PE in general has a large element of social purpose. They avoid concentration of wealth and disparities in income. They are established to help the underprivileged and develop the backward regions. The necessity of PEs as a means of rapid social-economic development of a country cannot be denied.

It is a well known fact that customers' goodwill is central to the prosperity of an industry. It should therefore be capable to draw not only money from the consumers but also their good will. It is no exaggeration to say that the success of an industry is measured by the goodwill it has created among consumers.
3.5 Problems & Prospect:

The investment scenario in Nepal has not been as favourable as it should have been—much to the dismay of our industrial policy-makers or think-tanks. This is not because there have not been attempts to come up with sound industrial policies or enterprise acts. The problem lies with their translation into action. Besides these, there is a host of reasons such as lack of clean cut demarcation between industry, business and other enterprises, dubious assessment of loan applications, short sighted revenue oriented policies, unclear policies/regulation etc. /44

44. Adhikari Surendra B., *Formal Informal Sector Dichotomy*.

Honesty is the best policy; there should be no cheating in quality. Rather there should be efforts at battering quality and offering economic price. Unfortunately Nepalese industrialists forgetting this truth, tend to take advantage of scarcity-ridden nature of Nepalese market and extremely yielding nature of Nepalese consumers are callously negligent about quality and for the short run gains, deprive themselves of lasting growth benefit. So long as this kind of exploitation is possible growth is bound to be very slow. /45

Many PEs have been established under foreign aid which has given assets such as administrative buildings and overheads. Some of these would not have been established by HMG on a top priority basis.

45. Pradhan Ishwori Man, *Ground Work for Productivity*, pp22
Industrial output has been very erratic. Not only policies seem to be defective but there is a pronounced lack of cohesion between policies and action. Dr Lohani provided the explanation for this gap observing that political structure utilize and act upon relevant to its manifested objectives when vested interests of the society as a whole affecting drastically the efficiency of institutions and leading to this observed gap between policies and action. /46

The apparent trend in growth of country’s industry and commerce have economic domain. So the structure of the system and maze of complex inter relationships between the subsystem should be properly understood which hardly seems to have dawned in Nepal.

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46. Bajracharya P.P., Marketing Strategies in Public and Private Sector Manufacturing Industries, pp 111
The proper balance between government control and corporate autonomy has not been resolved. More often than not there are unwanted interferences, but occasionally policy direction even on vital issues are not forthcoming. The civil service domination on the board has its inevitable impact on the PE management. The natural tendency is to refer to the administrative ministry even on routine matters. This has relegated the PE management virtually as an extension of department administration.

Economic environment is also affected by price situation and vice versa. The price level in Nepal is increasing at a very fast rate which, instead of creating a favourable climate for industrial development, is putting restrain on consumption levels and capabilities. The inflationary pressure altogether is increasing but the environment created by it does not seem to have been properly managed and benefit extracted by industries.
The government looks into profitability, members of legislature view their activities in terms of social obligations, the press determines from the standard quality of service while the public forms the opinion from the pricing policy. In such a situation, the management will not be able to satisfy the needs, and meet the criterion of all appraisers and thus become demoralised.

More vigorous governmental action is necessary to accelerate the pace of development in poorer countries which are characterised by various rigidities. As a U.N. study group observes.

"there is a larger borderland of functions which they ought to perform for the simple reason that they are important, and are not carried out or sufficiently carried out by private efforts. This orderland exists in any country but
it is wider in underdeveloped countries (compared to developed ones) because private enterprise in the latter is more knowledgeable and more enterprising than in the former." /48

In the case of heavy and key industries it is the public sector which is ideally suited. It may be expected that without industries no country can expect to attain a high level of industrialisation. Thus the government should play a more positive role in setting up industries.

The major problem of private enterprises has been noticed to be uncertain and unclear industrial environment in the country. In order to encourage industrial development in

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private sector, the public sector group suggested giving the major emphasis to avoiding difficulties and delays in providing industrial facilities. In this connection, the private sector group suggested giving major emphasis to avoid sudden and frequent changes in the tax rates and taxation policy, excise duty, custom duty, industrial facilities etc.

The major problems of public sector enterprises has been lack of appropriate measures to be adopted to achieve full capacity utilisation and lack of scope for mass-scale production due to the small size of the market. In order to improve the efficiency of the public enterprises of Nepal, it is felt that operational objectives have to be specified and efforts made towards cost control.

Among the major problems of industrialization the significant one is the shortage and erratic supply of electricity. The other problems in order of their significance are lack of workshop to repair machinery, etc.; unscientific system for licensing, loans, importing equipment, etc.; lack of stability in industrial policies; and so on.
Infrastructural inadequacies have often been a problem in Nepal's industrialization. It has resulted in sub-optimal utilisation of capacities in industries. The development of infrastructural activities are largely the responsibility of public sector. It is necessary that the operational efficiency of public sector units be improved so as to ensure the availability of their services. Their services should be made available to industries at an economically viable price by controlling cost and improving management efficiencies.

Too many objectives for industrialization programmes in Nepal is one of the main problems of industrialization. It becomes difficult to plan and implement plans with multiple objectives. As far as possible, there should be single objective planning of industrialization in Nepal. If this is not possible, multiple objectives should be few and they should be stated in order of priority. The priority rating of objectives is expected to give at least some direction towards micro-level planning of industrialization in Nepal.
3.5 Conclusions:

The industrial sector is an important sector for Nepal. There is no controversy as to whether this sector should be developed or not. As a matter of fact, industrialization has been accorded high priority in the process of planned development in Nepal. It is a leading sector and once this sector is developed, all other sectors will also be developed automatically. In the past decades, Nepal has made several efforts in this direction.

Industrialization and economic development are synonymous for many poverty-stricken developing countries. Many intellectuals in developing countries say that their countries are under-developed because they have too little industry. This is but natural since the industrialized countries of today were once predominantly agricultural. Hence, industrialization in developing countries has been viewed as an effective tool for achieving economic development and transition from traditionalism to modernisation from an agrarian economy. Though industrialization cannot provide
solutions to all problems of developing countries, it can provide solutions to most of their problems. Therefore whether industrialization is necessary for developing countries or not a matter of discussion but the real discussion is how to industrialise. In fact 'economic development through industrialization' has become a major slogan for the developing countries of today including Nepal.

A report by OECD has placed nations in the category of least developing countries which had a per capita income of $100 or less annually; a share of manufacturing in the GDP of 10% or less, and a literate population 20% or less over the age of fifteen. When judged in this way, there is no doubt that Nepal is one of the least developed countries. Historians view that the Rana regime was responsible for this because the Ranas did not make developmental efforts and kept the country completely isolated from contacts with the outside world. Due to this, industrialization in Nepal is also at the nascent stage. It is facing several controllable and non-controllable problems; for example, a small domestic market materials, lack of facilities with regard to power, transportation,
maintenance, auxiliary materials, inadequate investment and credit facilities, etc. Due to this, foreign industrial investment is also at a low ebb in Nepal.

It is stated that there is no clear perspective about the industries to be set up in the private and public sectors. The government view about setting up certain industries in the public sector is that the private entrepreneurs did not come forward in these industries. However, the private sector entrepreneurs did not accept the fact that due to lack of investors in such business, government had to come forward as an investor.

It is stated that an industrialised country is one for which 25% of the GDP arises in the industrial sector, of which at least 60% is in manufacturing and which had at least one-tenth of its population employed in industry. When judged in this light, Nepal is far from fulfilling any of these criteria.
As far as priorities to be assigned for development of different types of industries it is felt that the first preference be given to 'agro-based industries'; second priority to 'import-substituting industries'; the third priority to 'export-promoting industries'; and the fourth priority to 'mining, forest-based and other industries'.

Regarding the goals of industrialization in Nepal it is felt that the first priority be given to 'being self-reliant in essential goods'; the second priority to 'creating more employment opportunities'; the third priority to 'promoting export of Nepalese goods'; and the fourth priority to 'achieving balanced industrial growth of various regions of Nepal'.

It can be suggested that the policy of industrialization should emphasize optimum utilisation of the installed capacity, correction of regional imbalances in industrial development, preferential treatment to agro-based industries by strengthening the agricultural base to promote an inter-sectoral relationship and maximising production. Moreover,
there should be enlargement and streamlining of incentives to stimulate further investment in industrially backward areas. Besides, the successful implementation of industrial policy requires close and effective coordination among different government departments dealing with industrialization. However it has been found that there is lack of coordinated thinking among the different government departments on problems and procedures relating to industrialisation programmes. Thus to improve and increase the industrialization due attention should be given in this area.