CHAPTER TWO

PUBLIC ENTERPRISE IN NEPAL

2.1 The Country

Nepal, situated on the southern slopes of the eastern Himalayan range within an area of 145689 sq.km is a mountaneous land locked country bordered by India on the east, west and south and by the Tibet autonomous region of the Peoples Republic of China on the north. This is officially a Hindu Kingdom of 14.3 million people of which only 4 per cent is urbanised. The Nepalese society has traditionally been organised on caste hierarchy of Brahman, Kshatriyas, Vaishyas and Sudras. Kinship provides the strongest social tie. Joint family system is widespread. Because of the paternalistic attitude the stress is always on dependence of women on men and of youths on elders. Nepali is the national language. The ethnic diversity of the country is, however, represented by forty or so other languages and dialects. Only 20 per cent people in the country are literate. The present political system of the

---

2. Article 3(1) of the Constitution of Nepal states "Nepal is independent, indivisible and sovereign monarchical Hindu State".
country is known as 'Panchayat Democracy' under the active leadership of the Monarch.  

The economic system of the country can be characterized as mixed economy. The Government takes active part in the economic life of the nation. The economy is predominantly agrarian-oriented, which is highlighted by the fact that the agriculture sector alone absorbs 94.3 per cent of its economically active population (1971 census) and contributes 64.2 per cent in the gross domestic product of the country (1976-77). The industrial sector of Nepal is in its infancy. The manufacturing sector contributes only 3.8 per cent in the GDP of the country (1976-77) and provides employment to only 1.1 per cent of the economically active

4. Panchayat democracy is a partyless three tier system: village or town panchayat at the lowest level, district panchayat at the middle level and national panchayat at the highest level. Although the system was initiated by the King in 1961 by replacing the parliamentary system, now it has been voted by the people in the referendum held in May 1980. Till 1980 the representatives in national panchayat were elected indirectly. However, due to the third amendment in the constitution, the representatives in this body are now elected on the basis of adult franchise. The general election was held after 22 years in May 1981. Under the panchayat system for the first time an elected government has been constituted on June 16, 1981. These aspects have been the subject matter of discussion by various writers in the press including Dr. U.N. Sinha, 'Panchayat Democracy of Nepal: In Theory and Practice,' Department of Information, Kathmandu, 1972; Leo E. Rose, 'Nepal's Experiment with Traditional Monarchy,' Pacific Affairs, Canada, vol. XXXVI, No. 1, 1963; Dr. Karan Singh, 'New Political Phase in Nepal,' The Tribune, Chandigarh, May 29, 1981; The Rising Nepal, Kathmandu, June 17, 1981.


7. Ibid.
population (1971 census). Nepal has had six development plans beginning from 1956. The targets of the Plans were however, never realised. During the fifth plan (1975-80) period the annual growth rate has been 2 per cent as against a target of 4 to 5 per cent. For the same period the growth in population is estimated as 2.2 per cent. Under the circumstances the economic development process in the country has been a challenging task. A multipronged attack has been visualised in the Sixth Plan (1980-85) which includes, among other things, control in population growth and increase in production. Increase in production can be realised by better management of the institutions and their resources including human resources whether in public sector or in private sector.


10. Fifth Plan, op. cit., p. 36, Also The Tribune, Chandigarh July 20, 1981, where it is reported that heavy reliance on foreign aid, appalling trade deficits and declining production on the agricultural front are plaguing the Nepalese economy.

2.2 The Public Enterprises:

In an endeavour of planned development most of the developing countries have realised the importance of state participation in economic activities which has resulted in the establishment of many and varied PES. Prof. Hansen has rightly observed that whatever be the ultimate perspective, a country anxious to develop economically has no alternative but to use PES on a considerable scale.\textsuperscript{12} However, PES need to be economically feasible, politically possible, culturally compatible and technologically appropriate.\textsuperscript{13} To this may be added that these have to be socially beneficial and managerially sound.

2.2.1 Ancestry:

PES are not new for Nepal. History reveals that the ancestors of PES in the country can be traced back to the 18th century when 'Illaychi Kothi' (cardamom house) was opened by Bhim Sen Thapa, the then prime-ministers at Patna (India) to deal with cardamom exported to India.\textsuperscript{14} The establishment of various

\begin{itemize}
\item \textsuperscript{13} Report of the Conference on Asian Development Strategies and the Role of Public Enterprises, Eastern Regional Organisation for Public Administration (EROPA), Manila, 1976, p. 36.
\item \textsuperscript{14} Satish Kumar, Rana Polity in Nepal, Asia Publishing House, Bombay, 1987, p. 100.
\end{itemize}
offices such as 'Hulak Goswara', 'Pani Goswara', 'Bijuli Goswara', 'Goth Goswara', 'Gharelu Adda', 'Telephone Adda', 'Udyog Parishad', 'Krishi Parishad', 'Nepal Bureau of Mines' during 19th and early 20th century are few other examples of ancestors of PES in Nepal. The establishment of Nepal Trading Corporation at Kathmandu in 1932 in order to promote trading in Nepal is among the last ancestors of present form of PES. These indicate that even in ancient and medieval Nepal the rulers were in favour of PES in a certain way.

2.2.2 Growth of PES

Although the ancient and medieval Nepal had some form of PES, in the present form they have developed only since the ushering of the planning era (1956). One of the objective of the first five year plan was to establish the required number of public enterprises by following as simple and short a procedure as possible. Though the last phase of that plan period witnessed a change in the political system of the country, the emphasis on the public sector remained unchanged, and this sector has been commanding a lion's share in the total plan outlay of the country and is succinctly manifested in Table 2.1.

Table 2.1: Planned Outlay in Public and Private Sector

<table>
<thead>
<tr>
<th>Plans</th>
<th>Total Outlay in million $</th>
<th>Percentage of share</th>
<th>Public Sector</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan</td>
<td></td>
<td></td>
<td>330</td>
<td>100</td>
</tr>
<tr>
<td>Second Plan</td>
<td></td>
<td></td>
<td>600</td>
<td>100</td>
</tr>
<tr>
<td>Third Plan</td>
<td></td>
<td></td>
<td>2300</td>
<td>79.2**</td>
</tr>
<tr>
<td>Fourth Plan</td>
<td></td>
<td></td>
<td>3540</td>
<td>75.4**</td>
</tr>
<tr>
<td>Fifth Plan</td>
<td></td>
<td></td>
<td>11404*</td>
<td>76.6**</td>
</tr>
<tr>
<td>Sixth Plan</td>
<td></td>
<td></td>
<td>28000***</td>
<td>80.4**</td>
</tr>
</tbody>
</table>

Source: Respective Plan Documents of Nepal.

Note: * This is the figure of maximum programme providing for 5% growth rate as against minimum programme providing for 4% growth rate.

** The share of panchayat sector is included in these figures.

*** Proposed in Draft outline.

The role assigned to the public sector gave additional impetus to the growth of PES and in each successive plan period the Government went on establishing a number of PES for attaining bread national

17. PES for the purpose of this study is taken to mean 'all productive entities/organizations, which are owned and controlled by public authorities and whose output is marketed'. This definition was agreed upon in the Seoul (Korea) Workshop on Performance of PES in Asia (PPPEA) project sponsored by International Development Research Centre (IDRC), Canada. Some of the terms used in the above definition have been defined in the following manner:
objective (Table 2.2). The areas in which these enterprises operate range from basic infrastructure, industrial estates, banking, trading and commercial activities to a number of various sized manufacturing enterprises. Table 2.3 sets out sector-wise information about the number of units, financial investment and persons employed therein.

'Productive entity' or organisation refers to an identifiable decision-making unit with an explicit or extractable budget which produces goods or services'. 'Ownership refers to such an entity or organisation where more than 50 per cent of outstanding equity is held by a public authority'.

'Public Authority' refers to the Government either directly (owning in its own name the equity of the entity) or indirectly (ownership in an organization whose equities are held by such other entities which in turn are owned by the public authority)'.

'Control' means the power to be involved in the management of the enterprise through appointment of top management, member of the Board of Directors and chief executives'.

'Output' is said to be marketed if sales cover more than 50 per cent of current costs (current costs refer only to intermediate input and return to the factors which constitute largely wages and rent for building not owned by the enterprises)'.

Table 2.2: Growth of Public Enterprises in Nepal

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Period</th>
<th>Number of PES established</th>
<th>Investment in million $</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Before Plan Period (Till 1955-56)</td>
<td>1</td>
<td>32.6</td>
</tr>
<tr>
<td>2.</td>
<td>First Plan (1956-57 - 1960-61)</td>
<td>8</td>
<td>334.0</td>
</tr>
<tr>
<td>4.</td>
<td>2nd Plan (1962-63 - 1964-65)</td>
<td>21*</td>
<td>813.6</td>
</tr>
<tr>
<td>5.</td>
<td>3rd Plan (1965-66 - 1969-70)</td>
<td>33</td>
<td>1142.4</td>
</tr>
<tr>
<td>6.</td>
<td>4th Plan (1970-71 - 1974-75)</td>
<td>59**</td>
<td>1332.6</td>
</tr>
</tbody>
</table>


Note: Similar information for 5th Plan (1975-76 to 1979-80) is not available.

* During this plan period 11 enterprises were established out of which one was later sold to the private sector.

** During this plan period 27 enterprises were established out of which one was sold later to the private sector.

Table 2.3: Number of Units, Investment and Employment in different sectors of PES as on 15.7.1975.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Sectors</th>
<th>Number of Units</th>
<th>Investment in million $</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Agriculture, Hunting, Forestry and Fishing</td>
<td>2</td>
<td>9.6</td>
<td>815</td>
</tr>
<tr>
<td>2.</td>
<td>Mining and Quarrying</td>
<td>1</td>
<td>1.5</td>
<td>10</td>
</tr>
<tr>
<td>3.</td>
<td>Manufacturing</td>
<td>16</td>
<td>269.4</td>
<td>9164</td>
</tr>
<tr>
<td>4.</td>
<td>Electricity, Gas &amp; Water</td>
<td>3</td>
<td>313.3</td>
<td>2232</td>
</tr>
<tr>
<td>5.</td>
<td>Construction</td>
<td>4</td>
<td>22.7</td>
<td>367</td>
</tr>
<tr>
<td>6.</td>
<td>Trade</td>
<td>16</td>
<td>113.6</td>
<td>2906</td>
</tr>
<tr>
<td>7.</td>
<td>Transport</td>
<td>4</td>
<td>249.4</td>
<td>3304</td>
</tr>
<tr>
<td>8.</td>
<td>Finance</td>
<td>8</td>
<td>334.8</td>
<td>7068</td>
</tr>
<tr>
<td>9.</td>
<td>Community</td>
<td>3</td>
<td>18.3</td>
<td>817</td>
</tr>
<tr>
<td></td>
<td>**Total</td>
<td>**39</td>
<td><strong>1332.6</strong></td>
<td><strong>26703</strong></td>
</tr>
</tbody>
</table>

Note: Employment in manufacturing sector is as on 15.7.1970.
Source: Adopted from 'Performance of Public Enterprises in Nepal, op.cit.
2.2.3 **Rationale:**

Although the objectives of PES in Nepal were not laid down in a white paper or a national document, one can piece together the set of objectives from the policy pronouncements of the Government in the various plan documents and elsewhere. The principle objectives of PES in Nepal emerging from these documents can be stated in the following terms:

1. To spearhead important sectoral developments such as agriculture and industry by providing total packages of services.

2. To provide communication system and develop infrastructure and provide basic utilities and produce defence goods and services under Government monopoly.

3. To provide adequate supplies and stabilise prices of essential goods and services and strategic development materials.

4. To maximise foreign exchange earnings and to minimise imports.

5. To maximise outputs, minimise costs and regenerate surpluses to plough back into the economy with a view to achieving designated developmental goals in a more accelerated manner.

---


6. To help and support smooth operation of already established industries.

7. To expand employment facilities and to be a model employer.

8. To operate efficiently on commercial principles and to improve the serving capabilities of Government departments by their conversion into PES.

9. To rehabilitate and revitalise important sick industries and also to initiate important industries in which private capital is shy.

2.2.4 Legal Status and Administrative Ministry:

PES are legal entities possessing public as well as legal authority and duties which can be exercised only for public good. They receive protection from the Government, which private companies normally do not have. Some PES in Nepal are established under special statutes while others are established under the general Acts. Thus their sources and nature of legal authority are diverse.

There are altogether 8 agencies (7 ministries and one Planning Commission) which exercise administrative control over these enterprises. Table 2.4 shows the number of PES under different Acts and Administrative Ministry as on June 15, 1981.


Table 2.4: Number of Public Enterprises under different Acts and Administrative Ministry

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ministry of Industry &amp; Commerce</td>
<td>24</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>26</td>
</tr>
<tr>
<td>2. Ministry of Forestry</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>3. Ministry of Food &amp; Agriculture</td>
<td>9</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>13</td>
</tr>
<tr>
<td>4. Ministry of Water &amp; Power</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>5. Ministry of Transport</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>6. Ministry of Communication</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>7. Ministry of Finance</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>8. National Planning Commission</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37</strong></td>
<td><strong>6</strong></td>
<td><strong>2</strong></td>
<td><strong>8</strong></td>
<td><strong>4</strong></td>
<td><strong>59</strong></td>
</tr>
</tbody>
</table>

Note: While constituting new Government on 16 June 1981, certain new ministries have been created/old ministries bifurcated which would call for re-allocation of some of these units to these new ministries.

Similar enterprises have been constituted under dissimilar legal instruments even though they may be under the general supervision of the same administrative ministry. There is no uniformity in Governmental policy with respect to establishment, capitalisation, supervision, composition
of board of directors, corporate liabilities etc. The presence of such a heterogeneity of legal provisions prevents the establishment of the desired relationship among the enterprises and thereby renders inter-ministerial coordination over PES difficult.

Subject to the provision of the Acts, and the rules framed by the Government these PES have the power to enact regulations. However, these regulations have the force of law when approved by the Government. In view of this PES in Nepal appear to stand as subsidiary organs of the Government. Although they are legally autonomous bodies having perpetual succession, functionally they are not different from the Government.

2.2.5 Control Mechanism:

PES are operating pivotal activities which are vital to speed up the pace of development of the country. Therefore, it is natural that the Government should impose a certain regulatory mechanism of control over the PES. Control over PES is sought to be justified on the ground that Government would be able to:

a) guide the PES towards efficient management;
b) achieve the socio-economic goals wedded to them;
c) regulate output, employment and pricing policies of PES in conformity with the national objectives; and
d) obtain sufficient information to enable the appropriate authority and the public to apprise the effectiveness of the PES' operation.
While Government control in FES are justifiable on the above grounds, there are other reasons which call for imparting autonomy to the FES. They are, *inter alia*, as follows:

i. Business decisions cannot possibly be made by the bureaucrats who are detached from the centres of decision-making and in many cases trained in irrelevant disciplines.

ii. Business success requires entrepreneurial innovation and a symmetrical risk function. By contrast, bureaucratic success requires an asymmetric risk aversion in which the goal is not to maximise the average 'success' over a long period, but to avoid at all costs any particular incident of conspicuous failure.

iii. The business decision-making process must be quick to adjust to rapidly changing market conditions. The bureaucratic system of checks, balances and multiple responsibilities is inherently unsuited to such flexibility.

It is commonly observed that management pleads for more autonomy while the Government has a desire to exert and perpetuate more control. So the conflict between autonomy and control is an inherent one in the management of FES. The control structure of FES in Nepal is set out in Figure 2.1 and the areas in which different agencies exercise their control is shown in Table 2.5.

---

FIG. 21 CONTROL STRUCTURE OF PES IN NEPAL

NOTE — * NOW THE CORPORATION COORDINATION COUNCIL HAS BEEN DISSOLVED INSTEAD A CORPORATION COORDINATION DIVISION HAS BEEN CREATED UNDER THE FINANCE MINISTRY. WHAT WILL BE THE ROLE OF THIS DIVISION VIS-A-VIS OTHER DIVISIONS OF FINANCE MINISTRY HAS NOT YET BEEN SPELT OUT.
<table>
<thead>
<tr>
<th>S\No.</th>
<th>Controlling Agencies</th>
<th>Areas of Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>His Majesty The King</td>
<td>General Directives</td>
</tr>
<tr>
<td>2.</td>
<td>Raatriya Panchayat</td>
<td>Working of PES through questions, debate on Royal Address and Budget. Scrutiny of Accounts through Public Accounts Committee.</td>
</tr>
<tr>
<td>4.</td>
<td>Auditor General Office</td>
<td>Audit of Accounts</td>
</tr>
<tr>
<td>5.</td>
<td>Public Service Commission</td>
<td>General Principles relating to selection, promotion and disciplinary action, condition of service, supervisory control over the personnel management practices.</td>
</tr>
<tr>
<td>6.</td>
<td>Prime Minister</td>
<td>General Directives through Cabinet Secretariat.</td>
</tr>
<tr>
<td>7.</td>
<td>Administrative Ministry</td>
<td>Issuance of policy directives, appointment and removal of board of directors and chief executives, participation in management as board member, appointment of inquiry committee, evaluation of performance, asking information, issuing administrative orders, approval and rejection of any action.</td>
</tr>
<tr>
<td>8.</td>
<td>Finance Ministry</td>
<td>Equity share, subsidy, long-term loan, capital expansion, salaries, and wages, other facilities to the employees, bonuses etc.</td>
</tr>
<tr>
<td>9.</td>
<td>Labour Department</td>
<td>Industrial relations, labour welfare</td>
</tr>
<tr>
<td>10.</td>
<td>National Planning Commission</td>
<td>Plans and programmes</td>
</tr>
<tr>
<td>11.</td>
<td>Nepal Rashtra Bank</td>
<td>Interest rate</td>
</tr>
<tr>
<td>12.</td>
<td>Board of Directors</td>
<td>Plans and programmes, overall policy of management, annual and supplementary budget, evaluation of performance and other general management areas.</td>
</tr>
</tbody>
</table>
The Table reveals that in various vital aspects of management the Government has instituted formal or informal and direct or indirect system of control, supervision and direction over PES. In fact, there is a special clause in the Company Act which declares that all PES under the ACT are bound to follow and execute any directive/s coming from the Government. Similar provisions are made under other statutes too. However, it is often alleged that the Government lacks clear cut policy direction and an objective approach towards instituting a systematic control system, with the result that an ideal compromise between corporate autonomy and Government's control is hardly established. Quite often the controlling agencies are found to be lacking in sectoral planning objectives and clear cut conception of the roles that the concerned PES are expected to play. As a consequence, the Government's control tends to be misplaced at times. There are many evidences of the Government's interference in many corporate issues which should have been tackled at the PE level itself. On the other hand, on many vital issues the concerned controlling agencies shy away from giving concrete


directions. At best, the policy direction given to the PES suffers from vagueness and often creates undue delay in the decision-making process.\(^\text{25}\)

2.2.6 Organizational Structure:

PES are organized in many ways as distinct autonomous units with varying degrees of legal and operational independence.\(^\text{26}\) These are public corporations, Government companies and departmental form of organizations. Among these the first two are popular forms of PES in Nepal. However, in practice there is hardly any difference between the two forms of organizations.\(^\text{27}\)

While at macro level public corporation and company form of organizations are popular, at micro level PES in Nepal have employed more or less uniform type of organization. These are managed by an autonomous governing

\(^{25}\) Ibid.


\(^{27}\) Mr. Appleby was right when he stated that the corporation and company are essentially the same and differ, unfortunately, only on the basis of their legal authorities. Paul H. Appleby, *Re-examination of India's Administrative System with special reference to Administration of Government's Industrial and Commercial Enterprises*. Cabinet Secretariat, New Delhi, 1956, p.33. Also *Organization and Administration of Public Enterprises*, United Nations, New York, 1956, p. 9.
body - the Board of Directors. In some cases the Chairman of the Board is also the Chief Executive of the enterprise concerned, but in other cases the General Manager works as the chief executive. In certain cases, however, the chief executive (General Manager) may not be even appointed as member of the Board of Directors. 28

The chief executive, at the highest echelon in the organization, is usually assisted by a Deputy General Manager. Next in hierarchy are the division or department chiefs, who in turn, are assisted by sectional heads. The lowest level of the management personnel are the officers in sixth level positions.

2.2.7 Pattern of Top Management:

Numerically top management constitutes a very small group in an enterprise. However, it is on the efficiency, dynamism and leadership of this small group with executive responsibility over the organization - that the success or failure of an enterprise largely hinges. A study by the CCC on the pattern of top management in Nepalese PBS 29 has revealed that 42.8 per cent of the top management 30 belonged to the age group of 40-49 and

28. The Pay Committee Report (1975) and the CCC Report (1977) had recommended that the chairman of the board should be appointed as the chief executive of the PE concerned. The Government have accepted these reports but the recommendations have not been implemented in all PES.


30. Top Management here includes Chairman and members of the Board, General Managers and Deputy General Managers, Ibid, p. 15.
57.2 per cent were divided equally in the age group of 30-39 and 50 years and above. While 89.9 per cent had graduate (26.5 per cent) or post graduate (33.4 per cent) as their academic qualifications, 6.1 per cent were intermediates, 4 per cent were not having even matriculation as their academic qualification. The study has also revealed that 34.7 per cent were having no experience in the top management, 36.6 per cent were having 1 to 5 years of experience and 28.6 per cent were having experience of more than 5 years. The Government was the appointing authority of 81.6 per cent of top managers and the rest were appointed by the Board of Directors or Chairman or the general body of shareholders. Majority of top managers (55.4 per cent) were drawn from HMG offices and the rest were the people from the FES and other sources. Most of these managers lacked exposure to the field of management. Very few had any training in the field of industry and management or work experience. The chief executives appointed by the Government had, in most of the cases their lien somewhere in the Government departments or ministries and lacked commitment to the FES. No definite criteria for their appointment have been laid down. Many other considerations rather than relevant experience and qualifications seem to have prevailed in their appointment.
There is no fixed tenure of the chief executive. Frequent changes and transfers are common. For example, in one manufacturing enterprise, the study has reported that during the past 11 years of its life every sixteenth month a new chief executive was appointed. The change of chief executives in some other companies ranged from two to four times within a period of 20 months. Such frequent changes have considerably limited their ability to acquaint themselves with the problems facing their organizations and devising solutions. This quick turnover has also adversely affected FE's operation as no particular chief executive could be held accountable for any organizational failure or mismanagement; long term planning in several vital aspects like capital expansion, manpower development, management reforms, product mix issues has not been possible. They have tended to avoid risky decisions and tended to adhere to bureaucrat principles which defeats the basic purpose of FE. Interest in safeguarding one's personal position has received the highest priority in the decision-making functions of the chief executives.

The Board of Directors is expected to play a crucial role in steering the FE along the path of desired objectives against environmental constraints. But the board members are heavily drawn from the Government (75.1 per cent) representing different ministries and departmental interest. They prefer to administer rather than practice management.31

Representation from technical experts, labour and public is almost non-existent. There is the absence of clearcut demarcation of authority, responsibility and accountability between the chief executive and the board of directors. It has, therefore, been difficult to hold a particular body accountable for any success or failure in management and organization of the PEs.

Theoretically the board is exclusively responsible for the management of the enterprise and it delegates some functions and authority to the chief executive for the normal operations of the enterprise. Very often in the context of the management of the PEs in Nepal, the delegation of authority is made in a very general form or sometimes on a verbal basis, with the consequence that sometimes the two organs of top management blame each other for the inefficiency and mis-management of the enterprise. Generally the chief executive, being the operational leader of the enterprise, is the obvious target of attack, inspite of the fact that he may not have been given necessary operational autonomy by the board for handling many of the day-to-day problems. Because of this, the chief executives have brought even minor issues before the board for consideration. The board instead of concentrating its attention on major policy matters is often found to be preoccupied with administrative and trivial matters. In several cases the role of the board

Accountability for performance is not possible without clearly and comprehensively laying down functional and authority descriptions. Well aware of the need for more clearcut division of functions and responsibilities between the chief executive and the board, His Majesty the King issued the following directive to the Cabinet in April, 1976 during his unofficial tour of the Central Development Region of the country:

"In the absence of clearly spelt out line of responsibilities between the board of directors and the general managers of the public sector industries and the corporation, there is a tendency to shift one's responsibility to the other. Therefore, with a view to make an end to such a tendency and to make public enterprise function efficiently it is necessary that the spheres of functions and responsibilities of the board and the general manager be clearly laid down and the concerned authorities be made accountable for their respective responsibilities, duties and functions and that the general managers be made more responsible for the profit and loss and efficient performance of the enterprise."

In pursuance of the above directive, CCC later made recommendations to demarcate the areas of functions between the executive chairman and the board which has been accepted by the Government and circulated to the PEs for implementation. However, it has not yet been made clear as to which of the organs is accountable for what. Again when a general manager is the executive head what will be the demarcating line. That has also not yet been made clear.

33. Study of Transport Corporation of Nepal, CEDA, Kathmandu, 1975, p. 30; also Study of Kastriya Nepaliva Bank, CEDA, Kathmandu, 1974, p. 49,
2.2.8 Financial Performance:

PEs' performance can be evaluated on the basis of their fulfilling the national goals which are manifested in the policy statements issued from time to time for these enterprises. Financial profitability is also one of the criteria to examine how effectively these PEs have used resources at their disposal. Although profitability is not the primary motive, a number of PEs mainly in manufacturing construction, trade, transport and financing sectors are expected to operate on commercial basis. Except some enterprises under community sector, most of the PEs are expected to yield financial benefits atleast to the extent of self financing. Table 2.6 below shows the rate of return on net capital employed by the PES. The efficiency of PES measured in terms of rate of return on net capital employed is deteriorating year after year. For example, in 1974-75, the gross profit (Rs 55.9 million) on net capital employed (Rs 1495 million) dwindled down to 3.7 per cent against the gross profit (Rs 37.3 million) on net capital employed (Rs 657.1 million) of 5.9 per cent in 1970-71, indicating a decline of 2.2 per cent over a period of 5 years.
Table 2.6: Rate of Return on Net Capital Employed

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Capital employed (b) in Billion</th>
<th>Gross profit (c)</th>
<th>Percentage of (b) over (c) (d)</th>
<th>Annual change in rates of return (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>637.1</td>
<td>37.3</td>
<td>5.9</td>
<td>-</td>
</tr>
<tr>
<td>1971-72</td>
<td>774.3</td>
<td>35.1</td>
<td>4.5</td>
<td>(-23.7)</td>
</tr>
<tr>
<td>1972-73</td>
<td>986.6</td>
<td>40.9</td>
<td>4.2</td>
<td>(-6.7)</td>
</tr>
<tr>
<td>1973-74</td>
<td>1192.0</td>
<td>42.0</td>
<td>3.5</td>
<td>(-16.7)</td>
</tr>
<tr>
<td>1974-75</td>
<td>1495.0</td>
<td>55.9</td>
<td>3.7</td>
<td>5.7</td>
</tr>
</tbody>
</table>


Note: Financial data after 1974-75 is not available.

2.3 Manufacturing PES:

State participation in the manufacturing sector began with the establishment of a small cotton textile unit. The major state intervention in the manufacturing sector began in 1959 with the take over of the management of a jute mill in the private sector which could not repay the principal and interest on loan secured from the Government. Later consumer goods or import substituting products namely sugar, cigarette, leather and shoe, cotton textile, brick and tile, agricultural tools, dairy etc. were given high priority in HMG list of public sector industries. One may rightly ask the basic reason on the part of the HMG
for establishing such industries in public sector especially when in the early phase of planned development there tended to be paucity of development capital with HMG, and private capital, which although generally considered as meagre, shy and unwilling to go into industrial investment, might have found its way into these fields. The only justifiable answer can be the offer of bilateral aid for turn-key projects in the manufacturing sector by friendly countries such as Soviet Russia and China. Indeed this has been the driving force behind the establishment of these PES. To illustrate, the offer of Russian aid explains HMG's resolutions to undertake the establishment of sugar, cigarette and agricultural tools industries. Similarly Chinese aid motivated HMG to undertake such industries as brick and tile, leather and shoes, and cotton textiles. Dairy industries can be cited as another case in point. Prior to its incorporation under the Corporation Act it was a departmental enterprise which operated, at the outset with six milk collection centres, six cheese factory units and one milk processing centre\textsuperscript{35} and the whole business was undertaken at a very small scale. HMG's decision to convert the departmental enterprise into a separate legal entity in 1969 was greatly influenced by the prospects of bilateral and multilateral aid for its expansion and diversification programme as envisaged in the fourth plan.\textsuperscript{35} Indeed, aid from the Netherlands,

\textsuperscript{34} Three Year Plan (1961-62 - 1963-64), HMG, National Planning Council, Kathmandu, p. 203.
\textsuperscript{35} Fourth Plan (1970-75), HMG, NPC, Kathmandu, p. 49.
Denmark, World Food Programme and Newzealand at different times poured into the enterprise which enabled it to expand its capacity and activities to the extent as it is seen today. It must be emphasised here that in a good number of cases the offer of aid played a decisive role in motivating HMG to convert many of its departmental enterprises into autonomous public corporations. Some enterprises were established in the public sector without the lure of foreign assistance to meet some specific objectives. For example, HMG visualised the role of entrepreneurial support to private sector through the formation of a FE and engaged itself in tea industry. Likewise, HMG's involvement in pharmaceutical industry was inspired by the commercial values of the research output produced by Royal Drug Research Laboratory. As there was not a single enterprise worth the name in this line of industry in the private sector, it was regarded important to establish a manufacturing unit in the public sector. As the enterprise was the first venture of its kind, HMG's role in this case can be considered as that of entrepreneurial substitution with the objective of locally manufacturing standard pharmaceutical products. Again there are enterprises e.g. jute and cement - which can be cited as cases of HMG's motive for gaining dominant control and ownership in both of them. These enterprises initially started in private sector were brought under the domain of the public sector. It is believed that HMG's intervention in these enterprises was with the objective
of generating greater social welfare through its operation as a PSE rather than as a private enterprise.

In spite of all these good motives and objectives of HMG behind its intervention in the manufacturing sector, its performance has not come up to the mark. HMG's policy of public intervention especially in manufacturing and trading sectors has aroused sharp criticism from private sector. An eminent businessman and industrialist of Nepal has observed 'Although the Government has committed itself to a mixed economy, official policy is increasingly tending to erode the freedom of the private sector.' 36 Commenting on transfer of certain industries from private to public sector he further added that "HMG is fast driving the country to "Governmentalization". To him, nationalization means when foreign companies are taken over and brought under national control. When industries and business are transferred within the national boundaries from the hands of private individuals to the Government it is simply 'governmentalization'.

2.3.1 Important Features:

1. At present the manufacturing PES in Nepal is comprised of 16 large, medium and small sized units (Appendix 1.1) producing consumer and development goods such as cotton, jute, cigarette, sugar, leather and shoe, tea, milk, rice, drugs, ghee, agri-tools, brick and tile


37. Ibid.
and cement. These industries can be broadly grouped into 4 categories - jute, textile and leather products (6 units), food, beverages and tobacco (5 units), Pharmaceutical (1 unit) and miscellaneous (4 units).

ii. 56% units in manufacturing sector are located in and around the city of Kathmandu, the capital of Nepal, and the rest are located at a distance ranging from 145 km to 500 km from Kathmandu. The units are highly concentrated in Central Development Region of the country (15 units). Only 3 units are outside the Central Development Regions - Eastern (2 units), Western (1 unit).

iii. These units were established during 1958-74 period. 2 units each were established during first and second plan period, 7 units were established during third plan period and 5 units were established during fourth plan period. The average age of these units is 13.4 years (1981) ranging from 7 years to 23 years.

iv. All the units, save one, under manufacturing sector have been established under the Company Act 1964. Only one unit is established under the Corporation Act 1965. There is no departmental undertaking in the manufacturing sector. As on 15th June 1981, these units were under the administrative control of three ministries - Ministry of Industry and Commerce (12 units), Ministry of Food and Agriculture (3 units) and Ministry of Forest (1 unit).
v. The basic objectives and functions of these units are incorporated in their Memorandum of Association (MA). A study of these documents has revealed that no unit is established with a single objective. Rather all the units are established with multiple objectives. The objectives mentioned in MA are too broad and vague to provide any direction to these enterprises. It is perhaps on account of this broadness and vagueness that the managements of these enterprises rarely bother about their proper management and efficient functioning. It is interesting to note that the enterprises established under the same Act and the administrative control of the same Ministry with the same motives and means of public involvement and having the same output market structure have no uniform objectives. The ambiguity of objectives is highlighted by the fact that an enterprise established a decade ago carrying with it the objectives of bringing about stability in the market price of its product (rice) has not been able to command even 0.1 per cent share of the market.

In general the objectives incorporated in the Memorandum of Association simply highlight the nature of business that the enterprise is to carry out - purchasing of inputs and selling of outputs. The engagement of the enterprises in social welfare and services also invariably constitute a part of the objective. These objectives are
indeed too broad to be comprehended. They do not indicate
as to what is exactly expected from these PES. Naturally,
lack of clear operational objectives has resulted in a
confusion among the corporate managers as to the policies
and plans to be formulated for their enterprises.

An institution does not automatically become result
oriented in its operation because it is so desired or
because it enjoys certain degree of autonomy or state
protection not available to other units in the economy.
A clear definition of objective, instructing the manage-
ments, as to what is actually wanted from them over a
certain time-dimension is essential. Obscure and too
general objectives only create confusion and demoralization.

vi. As stated earlier no enterprise is established with
a single identifiable objective. The enterprises are wedded
with a large number of objectives as reflected in their
memorandum of Association. Some of these objectives are
mutually exclusive, while some others are mere wishful
thinking when considered in the light of the constraints
set by the environment in which these enterprises operate.
Nevertheless, allowing for some amount of arbitrariness
the single dominant motive of PES can be identified on
individual basis. By doing so it is found that most of
the units in the manufacturing sector are established with
economic growth motive.36 The means of public involvement

36. Economic growth motive comprises a list of motives widely
accepted in today's developing countries where market
imperfections are pervasive, for example, developing
industries to cater to domestic demand or import sub-
stituting industries, developing export oriented
industries, developing cottage industries, etc. Performance
chosen for these enterprises constitute entrepreneurial substitution\textsuperscript{39} (13 units), managerial substitution\textsuperscript{40} (2 units) and entrepreneurial support\textsuperscript{41} (1 unit).

\textbf{vii. The organization structure of these units are similar to other PES.} They are governed by a Board of Directors; the Chairman or the General Manager are the chief executives of the enterprises who in turn are assisted by Deputy General Managers and Assistant General Managers (4 enterprises). Departmentation is done on the basis of functions and each department is headed by a division chief who in turn is assisted by sectional heads.

The average size of the board of these enterprises is 4.8 ranging from 3 to 9. Out of the 77 members of 16 boards, 69 members (89.6 per cent) are either from the Government or from the Government owned enterprises. The chief Executives do not find a place on the boards of 4 enterprises whereas in 6 enterprises the chief executives

39. The means of entrepreneurial substitution is resorted to by the Governments when they themselves initiate the activity in sectors which are judged to be potentially profitable from the social point of view but which the private sector does not undertake because of the magnitude of capital requirements, risk, uncertainty, technological complexity, lack of market knowledge or impossibility of making private profits. \textit{Ibid}, p. 86.

40. Managerial substitution refers to those PES which were originally undertaken in the private sector but were later taken up by the public sector to save them from the verge of bankruptcy or to improve their level of operational efficiency. \textit{Ibid}.

41. Entrepreneurial support refers to those PES which are designed to provide essential support in order to stimulate potential entrepreneurs to produce desired goods and services. \textit{Ibid}, p. 85.
are also the Chairmen of the boards. This inconsistency in the composition of the Board of Directors has adversely affected the morale of certain executives on one hand and the effectiveness of the board to tackle the problems of the enterprises on the other.

viii. The majority of the enterprises (9 units) under manufacturing sector have to compete with the private sector. The output market structure of other enterprises can be termed as contrived monopoly (1 unit), domestic monopoly (1 unit), duopoly (2 units) and oligopoly (3 units).

Table 2.7 reveals that the 16 units under the manufacturing sector constituted 27.1 per cent of the total PES (59 in number) with a financial investment of Rs 269.4 million (20.2 per cent of total financial investment in PES). These units employed 34.3 per cent of the people employed in PES, commanding 19.4 per cent of gross fixed assets (Rs 868.8 million) and 17.0 per cent of net fixed assets (Rs 659.9 million) of PES in Nepal. This sector has also fared well in gross savings having 26.4 per cent of total gross savings of PES. The average annual rate of return on net capital employed was also quite high - being 10.4 per cent as against 4.4 per cent average annual return in all PES. Similarly this sector contributed over 25% of total value added by PES and also the employee compensation. Thus the role of manufacturing PES in the national economy is quite significant.
<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Total of PES</th>
<th>Total of Manufacturing Sector</th>
<th>Percentage of Manufacturing Sector over Total of PES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Number of PES in Nepal</td>
<td>59</td>
<td>16</td>
<td>27.1</td>
</tr>
<tr>
<td>2.</td>
<td>Employment in PES</td>
<td>26703</td>
<td>9164</td>
<td>34.3</td>
</tr>
<tr>
<td>3.</td>
<td>Employment in Manufacturing sector of the country</td>
<td>52000</td>
<td>9164</td>
<td>17.6</td>
</tr>
<tr>
<td>4.</td>
<td>Financial Investment on 15th July 1975 (in Million Rs)</td>
<td>1332.6</td>
<td>269.4</td>
<td>20.2</td>
</tr>
<tr>
<td>5.</td>
<td>Gross Fixed Assets (in Million Rs)</td>
<td>868.8</td>
<td>168.8</td>
<td>19.4</td>
</tr>
<tr>
<td>6.</td>
<td>Net Fixed Assets (in Million Rs)</td>
<td>638.9</td>
<td>108.4</td>
<td>17.0</td>
</tr>
<tr>
<td>7.</td>
<td>Gross Fixed Capital formation (Rs in Million at current prices in the year 1974-75)</td>
<td>109.2</td>
<td>35.4</td>
<td>32.4</td>
</tr>
<tr>
<td>8.</td>
<td>Average Annual Return on Net Capital employed (1970-71 to 1974-75)</td>
<td>4.4%</td>
<td>10.4%</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Contribution to National Treasury during 1970-71 to 1974-75 in Million Rs</td>
<td>744.7</td>
<td>231.8</td>
<td>31.1</td>
</tr>
<tr>
<td>10.</td>
<td>Gross Saving (Rs in Million at current prices in the year 1974-75)</td>
<td>72.4</td>
<td>20.6</td>
<td>28.4</td>
</tr>
<tr>
<td>11.</td>
<td>Employees Compensation per year (an average of 1970-71 to 1974-75) in Million</td>
<td>71.9</td>
<td>18.5</td>
<td>25.7</td>
</tr>
<tr>
<td>12.</td>
<td>Value added by PES during 1970-71 to 1974-75 in Million</td>
<td>802.6</td>
<td>208.8</td>
<td>26.0</td>
</tr>
</tbody>
</table>

Source: Prepared from the information available in Performance of Public enterprises in Nepal, op.cit. Employment figure of manufacturing sector as on 15.7.1980 was collected by the author and adjusted to the information available in the above study-report.